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Your Reference Modification Proposal 0149 & 0149a

**Re: Modification Proposal 0149 & 0149a: 'Gas Emergency Cash Out Arrangements: Keeping the On the Day Commodity Market open during a Gas Deficit Emergency'**

Dear Julian,

Thank you for your invitation seeking representations with respect to the above Modification Proposals.

National Grid Gas plc, Distribution ("NGD") supports the first of these Proposals, that is, proposal 0149 but is unable to offer support for proposal 0149a.

NGD has the following comments to make in respect of specific sections of the Draft Modification Report which is the subject to this consultation:

**The Modification Proposals**

Both proposals would facilitate the opening of the On the Day Commodity Market (OCM) during a Stage 2 Gas Deficit Emergency and beyond. This would provide another mechanism for 'merchant gas' to be made available to the market. In both cases NTS would not be active on this market. NTS proposal 0149 would cash out a short position at the highest accepted daily offer and a long position at daily SAP during the emergency. The e.on alternative, proposal 0149 uses a pre emergency frozen SAP for short and long positions.

**Extent to which implementation of the proposed modification/s would better facilitate the relevant objectives**

Proposal 0149 better facilitate SSC A11.1(a) "the efficient and economic operation of the pipe-line system .." by providing another effective route to market for merchant gas. Given that this should be the primary objective of both of these proposals it should be noted that proposal 0149 is most likely to achieve this on the basis that a true market driven cash out regime is more likely to encourage User participation. The frozen prices cash out regime advocated in the alternative proposal would not encourage any market activity. The possibility of being exposed to a true market driven cash out price is more likely to encourage early action by shippers to manage risk in advance of a Gas Deficit Emergency and thereby mitigate the emergency's impact, e.g. diversification of gas supply contracts.

In relation to SSC A11.1(d) ".... the securing of effective competition between relevant shippers..." NGD agrees with the proposer of proposal 0149 that it would lead to improved cost targeting.

**The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation**

NGD believes that proposal 0149 has the potential to have a positive impact on security of supply by increasing Users' options for delivering gas to market during an emergency and for Users that are short, to trade out their positions. As already noted proposal 0149 may encourage action in advance of a Gas Deficit Emergency to avoid risk. The potential for more gas to be delivered to the system should help reduce the duration of a Gas Deficit Emergency.

**The implications for Transporters and each Transporter of implementing the Modification Proposal, including****a) implications for operation of the System:**

Firm cash-out prices should encourage shippers to diversify their delivery options, which would in turn increase User options for meeting their demands.

**b) development and capital cost and operating cost implications:**

Implementation should result in an overall cost reduction when managing a Gas Deficit Emergency since shippers would in general be advantaged in seeing the emergency lifted.

**The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk**

NGD believes that proposal 0149 has the potential to add to the contractual risk of Users who may be exposed to higher cash out prices. NGD notes the discussions that took place concerning the potential for gaming in relation to setting of cash out prices and we agree that a robust regulatory presence should mitigate this risk.

**The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party**

The implementation of proposal 0149 has the potential to reduce the duration of an emergency and potentially to reduce subsequent cost for consumers.

**Analysis of any advantages or disadvantages of implementation of the Modification Proposal**  
**Advantages**

Proposal 0149 has the potential to encourage merchant gas to the market by providing appropriate price signals.

**Disadvantages**

Proposal 0149 has potential to expose Users to additional risk where they are short and have no options to make good the shortfall.

Proposal 0149a simply wouldn't attract marginal supplies of gas to market given its neutral price signal.

Yours sincerely

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