

6<sup>th</sup> December 2006

Mr. Julian Majdanski  
UNC Panel Secretary  
Joint Office of Gas Transporters  
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Dear Julian,

**Re: Modification Proposals 0116V/0116A/0116BV/0116CV: “Reform of the NTS Offtake Arrangements”**

EDF Trading (“EDFT”) does not support the implementation of Modification Proposal 0116V

EDFT supports the implementation of Modification Proposal 0116A

EDFT does not support the implementation of Modification Proposal 0116BV

EDFT does not support the implementation of Modification Proposal 0116CV

EDFT does not support the implementation of Modification Proposal 0116DV

Amongst the Proposals which we believe, if implemented, would better facilitate the relevant objectives, we would rank the degree of facilitation in the following order (most favourable first): 0116A, 0116CV, 0116BV, 0116V, 0116DV

Our comments are as follows:

EDFT understands that following the sale of the DN businesses by National Grid that arrangements need to be considered to ensure that the network, as a whole, is operated and developed in the most efficient manner. This requires that planning information and future flow requirements are communicated between the DNs and the NTS at the relevant offtake nodes. It is not clear, however, that in order to accommodate this restructure that existing arrangements at other NTS offtakes need to be overhauled. EDFT wholeheartedly agrees with statements made in

the Proposal 0116A that for the purposes of requesting future NTS Exit Capacity requirements, DNs are materially different to other Users. The principal differences are that the DNs are price regulated operations which, subject to some form of incentive mechanism, are protected from revenue drift. In addition, DN Users purchase NTS Exit Capacity purely for the purposes of permitting them to operate/develop their networks to meet the needs of Users and therefore on behalf of those Users. This is very different to requiring Users to enter into arrangements to secure NTS Exit Capacity for use by themselves or potentially other Users in the future. In summary, Users are subjected to the vagaries of market forces whereas DNO's operate in a secure and predictable regulated environment. It is folly to opine that all classes of Users are the same, operating in similar markets with equivalent commercial pressures.

In terms of the products themselves, EDFT does not support the effective removal of interruptible capacity. Proposal 0116 allocates firm capacity to all offtakes and interruptible capacity is only available on a Use-it-or-lose-it basis, or at the discretion of NG NTS. This service will only be available at D-1. We are greatly concerned that at certain offtakes e.g. storage points where all capacity is currently interruptible, that this change in status will add more costs onto Storage Users. The discretionary release of interruptible capacity does not provide Users with confidence that NG NTS will make interruptible capacity available, as the methodology which it will apply to determine its availability is not transparent. This is likely to mean that at these offtakes where, we would argue flows tend to benefit the System, that Users will be "forced" to secure firm capacity as an insurance against interruptible capacity not being made available. EDFT believes that this is inefficient, incorrectly values the benefit storage brings to the System and sends the wrong signals to NG NTS. We recommend that interruptible capacity is maintained in its current form to ensure that the cost of capacity utilisation properly reflects the cost of providing it.

Secondly, EDFT does not understand why capacity is provided at a nodal level when system reinforcement ascribed to a single node's requirements will benefit others. Requiring Users to commit to capacity increases based on a tenuous baseline definition does not reflect the reality of investments made in the network. EDFT recommends that nodal capacity is not relevant and the system reinforcement should be considered at a more global level as we understand is currently the case.

Flexibility capacity is a by-product of flat capacity insofar as NG NTS has never invested in the network specifically to provide additional flexibility. On the basis that at its own admission there is excess flexible capacity in the System we find it curious as to why they feel it necessary to create a rationing mechanism to allocate it. Clearly, the pipeline investments made to date to support peak requirements have generated excessive flexibility capability and we see no reason as to why this will change in the future. We are also aware that the analysis performed by NG NTS in determining the levels of flexibility at the national and zonal levels is far from being robust and we have concerns that this may lead to inappropriate outcomes.

In summary, EDFT thoroughly rejects the proposal for the creation of such a product and believes that its imposition will only add operational costs/risks for all Users and Transporters which have not been and cannot be justified.

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

*Gas Transporter Licence Standard Special Condition A11.1*

- (a) *the efficient and economic operation of the pipe-line system to which this licence relates;*

Any proposal other than 0116A would not facilitate the achievement of this objective. For reasons we have stated previously the proposals are likely to lead to an inefficient use of capacity (effective removal of interruptible capacity); spurious investment signals (nodal allocation of capacity) and over-dependency on “flaky” analysis to determine baseline quantities (See comments on flexibility product).

- (b) *so far as is consistent with sub-paragraph (a), the coordinated, efficient and economical operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters;*

No comment

- (c) *so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;*

We concur with the views expressed in Proposal 0116A that for the purposes of amendments to the Exit regime that it is appropriate to differentiate between Users (Shippers and DNs).

- (d) *so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:*

- (i) *between relevant shippers;*

Further to our points raised above, we believe that the additional operational costs and risks to shippers would inhibit market entry. In addition we have no confidence in NG NTS or Ofgem’s abilities to determine and allocate baseline levels for both products at nodal level for flat capacity and national/zonal for flexible capacity. It is clear that any miscalculations in this regard will have implications for shippers flowing gas at certain offtakes.

- (ii) *between relevant suppliers; and/or*

As above

(iii) *between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;*

No comment

(e) *so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers’ licences) are satisfied as respects the availability of gas to their domestic customers; and*

No comment

(f) *so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.*

Not relevant

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

In accordance with the comments made in the draft report we expect these Proposals, excepting 0116A to be rejected on the grounds that it will accelerate Gas Emergencies.

Again, the impact on storage Users is likely to be significant and we see this as a major barrier to the development of new facilities.

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

#### **We have identified the following advantages:**

None (except for Mod 0116A which proposes the continuation of the current mechanisms)

#### **We have identified the following disadvantages:**

Removal of interruptible capacity will lead to the potential under-utilisation of capacity and incorrect valuation of services provided by bi-directional sites, in particular storage.

Complex and costly and therefore detrimental to competition and customers

Misleading investment signals due to:

- nodal definition of capacity not reflecting the relationship between offtakes
- national and zonal allocation of flexibility capacity which is nothing more than a by-product of investment in flat capacity

- removal of interruptible capacity
- dependency on and inability of NG NTS/Ofgem to determine accurate baselines (see entry capacity by way of example)

Yours faithfully

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