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Dear Julian

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Uniform Network Code Modification Proposals 0116V and alternatives – Reform of the NTS Offtake Arrangements

Summary

Thank you for the opportunity to respond to the above modification proposals. Gaz de France ESS is in support of modification proposal 0116A (raised by Eon) but is not in support of the original proposal 116 (National Grid NTS) and is not in support of the other alternatives.

Although we only support proposal 116A, it may be helpful to know the merit order with which we would rank the proposals under consideration, this is as follows:

1. Modification Proposal 116VA
2. Modification Proposal 116VC
3. Modification Proposal 116VB
4. Modification Proposal 116VD
5. Modification Proposal 116V

Relevant Objectives

The effective removal of Interruptible rights by moving to a universal firm regime as proposed in all modifications except 116VA could seriously affect the ability of CCGTs and large consumers connected to the NTS to react quickly to periods of system stress and provide demand side response. The contribution from this sector of the market has been key in providing security of supply in recent years by maintaining the supply/demand balance at peak periods. Should a universal firm regime be implemented, it is not certain that the back-up plant and the capability to switch to alternative fuel for direct connects will be maintained, certainly the incentives to retain switching capability will be reduced. Gaz de France ESS believe this will have a detrimental impact on security of supply and will not further relevant objective A11.1a “economic and efficient operation of the pipeline system”.

Also, A11a and objective A11.1d “securing effective competition between shippers and suppliers” will be detrimentally affected as a result of these proposals. The more rapid progression of a gas deficit emergency is more likely under these proposals as significant volumes of interruptible capacity will be removed from stage1 of an emergency, hence increasing the likelihood and risks associated with instructed supply side actions in stage 2 of a gas deficit emergency. Shippers ability to balance under market conditions will be eroded in this scenario as the short term trading markets may become less liquid and the OCM suspended earlier than under current arrangements.

Relevant objective A11.1d is also adversely affected as a result of the additional costs imposed on shippers by added complexity of products offered under all proposals except 116VA. The introduction of complex and long duration products increases the complexity of arrangements between suppliers and large consumers. Additional credit requirements and risk management processes may deter competitive switching in the large Industrial and Commercial market.

Modification proposal 116VA (Eon) extends the current arrangements and by doing so ensures a stable regulatory regime a better environment to encourage investment in new assets connected to the NTS. Relevant objective a11.1d “securing effective competition between shippers and suppliers” is furthered by extending the current arrangements beyond 2010 this removes the current uncertainty and aids long term investment decisions.

The current arrangements for NTS offtake are acceptable to all connected parties, Distribution Networks, CCGTs, directly connected customers, storage sites and Interconnectors. These connectees have diverse contractual arrangements and requirements from the NTS, they have vastly different business models which involve varying time durations. For example, a shipper supplier may have a supply contract in place with a large directly connected consumer at any one time for less than a one year duration, this contrasts dramatically to the long term planning needs of a Distribution Network which span 10 years or more. Such differing situations from users of the NTS means that each party is unable to identify requirements to the same extent and therefore due discrimination in the regime to recognise this is required. A convincing case case has not been made to demonstrate that identical arrangements need to apply to such a diverse variety of users.

I trust these comments are helpful, if you have any queries regarding this response please contact me on 0113 306 2104.

Yours sincerely

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