

TOTAL GAS & POWER LIMITED

Mr. Julian Majdanski
Joint Office of Gas Transporters
Ground Floor Red
51 Homer Road
Solihull
West Midlands
B91 3QJ
enquiries@gasgovernance.com

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Dear Julian,

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

Total Gas & Power Limited supports the implementation of Modification Proposal 0116A

Total Gas & Power Limited gives qualified support to the implementation of Modification Proposal 0116CV

Total Gas & Power Limited does not support the implementation of Modification Proposal 0116V/0116BV/0116VD.

Amongst these proposals, we would rank our support in the following order:).

Order of Support (Highest First)

- Mod 0116A (*Support*),
- Mod 0116CV (*Qualified Support*),
- Mod 0116BV (*Do not Support*),
- Mod 0116VD (*Do not Support*),
- Mod 0116V (*Do not Support*)

Our comments are as follows:

The current transitional arrangements have operated successfully since their inception in May 2005.

DNOs book flat and flexibility capacity from NG NTS in order to satisfy their planning requirements as mandated by their licence and in response to system growth. So although there is no explicit price placed upon the flexibility product, the DNOs are required through their licence to indicate appropriate levels of capacity. Shippers at present are able to indicate any variation in capacity requirements through the use of ARCAs, hence providing to NG NTS suitable investment signals.

We consider therefore that the current regime is straightforward, simple to operate and addresses the differing obligated requirements of DNOs and Shippers. It effectively provides a single product that can be utilised by Users and provides clear signals to NG NTS on



system demand and any future requirements in investment. Modification 0116A attempts to formalise these transitional arrangements and in doing so, we believe, satisfies many of the requirements set out by Ofgem in the EOWG terms of reference.

The potential regime changes lose a lot of that certainty and simplicity. We recognise the prevailing rights aspect of the proposed flat capacity product (present in all of the flat capacity variants) militates against the increased complexity and uncertainty caused by the introduction of an unbundled product. However we continue to maintain, that there are substantial problems associated with the design of the flat capacity product and there is no compelling reason to unbundle this product into a flat and flexibility component.

The lack of any explicit interruptible product until the day-ahead stage may increase the costs of procuring capacity and may increase price uncertainty when compared to the current arrangements. The removal of such a product will also have a disproportionately negative effect upon bi-directional sites and none of the proposed regime changes adequately address the requirements of such sites, in particular the counter-seasonal fluctuations in demand for storage sites. In addition further complexities arise by the requirement of an agency function to manage the signals by multiple users at these and other sites.

With regard to flexibility, flexibility capacity is a by-product of the overall system capacity present within the NTS. It has been indicated by NG NTS that investment will not be undertaken to construct additional flexibility capacity; hence there will no investment signal derived from the purchase of this product. We consider that sufficient information is already given by Users through the current arrangements and so it seems unnecessary to provide such a complex mechanism when a suitable system already exists.

Irrespective of the allocation mechanism used for flexibility it seems most appropriate that any measurement should take account of reasonable flow variation. We support the assertion within the modification report that *“In the case of NExA Supply Meter Points this tolerance is typically 3%”* and this seems more appropriate than a 1.5% tolerance.

None of the modifications seem to place any clear incentive on NG NTS to invest in the network where they feel there is a clear requirement; all of the responsibility for system investment is placed upon Users. While this may be appropriate for Users to give some signals, and we continue to believe that NG NTS has a central role and is critically placed to make strategic decisions on overall investment requirements in relation to entry and exit.

We have not explored alternatives to sufficiently reward NG NTS for efficiently incurred investment, as in the exit regime, and this would seem more appropriate that creating a complex regime placing all liability upon Users.

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;

Modification Proposal 0116A

We agree with the Proposer that implementation of Mod 0116A would enable DNO Users to register their NTS Capacity requirements long-term and allow National Grid



NTS to continue to consult and forecast other Users' NTS Capacity requirements, thereby facilitating the efficient and economic operation of the NTS pipeline system.

Modification Proposal 0116V/0116BV/0116CV/0116VD

Extending the flat capacity product to all Users will add additional complexity over the current regime, without creating additional signals for investment

We agree with the workgroup that owing to the complexity of the flexibility product NG NTS will not be given clear investment signals with regard to the variation of demand upon the system. Spurious signals may be created through bookings made by DNO to satisfy regulatory requirements, as opposed to operational needs, to the detriment of this relevant objective.

- (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;**

Modification Proposal 0116A

We agree with the Proposer that implementation of Mod 0116A would enable DNO Users to register their NTS Capacity requirements long-term and allow National Grid NTS to continue to consult and forecast User requirements, thereby facilitating the efficient and economic operation of the combined pipeline system.

Modification Proposal 0116V/0116BV/0116CV/0116VD

The proposed commercial regime should enable National Grid NTS to better respond to its Exit Capacity incentives by optimising the provision of Exit Capacity at times of high demand. The complexity of the flat and flexibility products will create inaccurate signals regarding system operation and likely usage however and reduce efficient operation of the network.

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

Modification Proposal 0116A

We agree with the proposer that this modification does not run contrary to the requirements of further standard special condition A6. Furthermore the modification avoids substantial costs and so is consistent with the requirement to ensure that licence obligations are discharged efficiently.

Modification Proposal 0116V/0116BV/0116CV/0116VD

Treating DN and non-DNO offtakes differently is not in itself discriminatory if it is warranted and so a universal flexibility products does not necessarily further standard special condition A6.

Flexibility capacity will not further these objectives as the substantial costs of implementing and operating the proposed mechanisms are inconsistent with efficient discharge of licence obligations when compared to the level of information given by



the purchases of this product.

- (d) *so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers*

Modification Proposal 0116A

This modification will ensure that the Transitional arrangements will continue to secure effective competition between relevant Shippers without exposing them to any unwarranted competition from DNO Users, who likewise can procure flexibility to satisfy licence obligations.

Modification Proposal 0116V/0116BV/0116CV/0116VD

We disagree with the Proposer's assertion that implementation would facilitate achievement of this objective as it would generate unnecessary competition between Shippers and Users for the same product; Shippers operate in a competitive market while the DNOs are monopolies with access to their own diurnal storage, who are required to obtain capacity to satisfy licence requirements.

Furthermore, increasing complexity creates a barrier to entry and may discourage Shippers from actively competing to supply NTS customers, thereby restricting competition.

- (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*

Does not apply to this objective

- (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.*

Does not apply to this objective

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

Modification Proposal 0116A

The maintenance of the current regime will ensure that NG NTS still receives sufficient information to operate the Total system in an efficient manner, whilst avoiding significant system costs. Likewise maintaining the concept of interruptible capacity will prevent the declaration of Stages 2 and 3 of a Network Gas Supply Emergency if system constraints were experienced, so maintaining security of supply. Not creating additional documents to support the proposed reforms will prevent industry fragmentation.

Modification Proposal 0116V/0116BV/0116CV/0116VD



We disagree with the Proposers that the modifications will provide National Grid NTS with improved system management tools. The removal of interruptible status will limit the options available to NG NTS if system constraints were experienced. This would also reduce security of supply for larger system loads who may be interrupted earlier than previously expected.

The proposed reforms to the current flexibility regime may add significant complexity and are unlikely to give meaningful system usage signals. DNOs will be booking for operational and licence compliance reasons, as opposed to actual system needs which Shippers will book to.

By including some changes in documents other than the UNC, such as the methodology statement, implementation would lead to arrangements being outside the central governance process and hence increase industry fragmentation.

The implications for Transporters and each Transporter of implementing the Modification Proposal, including

a) implications for operation of the System:

Modification Proposal 0116A

The maintenance of the current regime will ensure that NG NTS still receives sufficient information to operate the Total system in an efficient manner, whilst avoiding significant system costs. Likewise maintaining the concept of interruptible capacity give sufficient flexibility were system constraints experienced.

Modification Proposal 0116V/0116BV/0116CV/0116VD

We disagree with the Proposer that the modification will provide National Grid NTS with improved system management tools. The removal of interruptible status will limit the options available to NG NTS if system constraints were experienced. This would also reduce security of supply for larger system loads who may expect to be interrupted earlier than previously expected.

The proposed reforms to the current flexibility regime will add significant complexity and are unlikely give meaningful system usage signals. Shippers are unlikely to have accurate knowledge of system requirements prior to day-ahead and DNOs will be booking for operational and licence compliance reasons, as opposed to actual system needs. The added complexity of operation for storage operators may discourage investment and so would adversely impact security of supply.

The publication of additional information by Transporters will give greater transparency to the market and give Users an enhanced ability to self-balance.

b) development and capital cost and operating cost implications:

It is not possible to give a detailed indication of the possible costs that will be incurred as a result of this modification. We would expect the Ofgem impact assessment to provide some indication of costs and give an opportunity to comment from an informed position at that stage.



c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

We agree with the Proposer that costs which National Grid NTS incur as a result of implementation of these Proposals are in accordance with Network Sales requirements and should not be recovered from Users.

d) analysis of the consequences (if any) this proposal would have on price regulation:

Changes will be needed to the National Grid NTS Gas Transmission Transportation Charging Methodology Statement and DNO's Gas Distribution Transportation Charging Methodology Statements. These changes will need to be consulted upon. We would anticipate that some form of incentivisation mechanism should be placed upon NG NTS to undertake efficient investment.

The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

Modification Proposal 0116A

There will be no changes to contractual risk owing to the implementation of this modification.

Modification Proposals 0116V/0116BV/0116CV/0116VD

These modifications will cause a significant increase in the contractual risk for DNOs who will be required to acquire sufficient flexibility and flat capacity to satisfy their safety case, irrespective of the price or availability of such a product. NG NTS will in contrast experience a decrease in contractual risk as they will only be required to invest in response to any signals they receive, as opposed to internally predicting system usage.

The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

Modification Proposal 0116A

This modification will have no systems impact.

Modification Proposals 0116V/0116BV/0116CV/0116VD

There will be significant system changes to the UK Link System to facilitate the registration of NTS Exit Capacity. The Gemini system is used to manage the current Entry Capacity auction process and similar functionality is expected to be made available to allow a User to participate in flat and flexibility auctions, as well as view capacity holdings.

We welcome the Proposers' desire for the industry to be engaged in any subsequent system development to ensure an optimum solution.

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

Modification Proposal 0116A

There will be no increase in contractual risk or operating costs from this modification compared



to the current regime.

Modification Proposals 0116V/0116BV/0116CV/0116VD

The proposed changes will create a significant increase in the risk to Users as system usage rights (in particular flexibility) will need to be purchased through an auction, rather than as agreed through an ARCA. User will therefore need to renegotiate contracts beyond the UNC and align arrangements with downstream operators.

There will also be a need to substantially change their operations to participate in such auctions and to rewrite systems to accommodate the new regime. Operational costs would therefore increase significantly.

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

Modification Proposal 0116A

There will be no change in operating practice as a result of this modification.

Modification Proposals 0116V/0116BV/0116CV/0116VD

Terminal Operators, NTS CSEPs and Consumers will now be required to signal NTS capacity requirements on a long-term basis to Shippers in order to allow sufficient procurement of such capacity. They will consequentially required to renegotiate contracts with Suppliers to take into account the new regime. This will increase costs to these parties.

Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

Modification Proposal 0116A

There will be no impacts as a result of this modification.

Modification Proposal 0116V/0116BV/0116CV/0116VD

The modifications will have impact on the operation of the Moffat Interconnector, as there is concern of a possible hoarding of capacity at that exit point. We note that the proposer has attempted to cover this issue through the discontinuance of interconnector certification. While this may prevent hoarding of capacity, there will still be increased administration and operating costs operating on Moffat which may impact the jurisdictions downstream.

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

We have identified the following advantages:

Modification Proposal 0116A

- Clarity and simplicity



- Avoidance of implementation costs.
- Allows appropriate treatment of users
- Access to sufficient system capability for all Users in normal operating circumstances.

Modification Proposal 0116V/0116BV/0116CV/0116VD

- Provides certainty to Users by confirming holdings well in advance of gas flow.
- Provides Users with aggregated information in respect of Capacity applications and bookings.
- Changes to flat capacity tolerance levels better reflect the dynamics of the network and reduce User costs.

We have identified the following disadvantages:

Modification Proposal 0116A

None identified.

Modification Proposal 0116BV

- Potentially damages security of supply through removal of interruptible capacity.
- Creates unwarranted competition between Users.
- Imposes significant complexity and industry costs.
- More complex systems and processes are required to manage NTS Exit Capacity arrangements.

The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

Safety Cases would need to be considered and amended as necessary, subject to HSE agreement.

The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

Not required for this purpose.

Programme for works required as a consequence of implementing the Modification Proposal

The programme of works required to implement this modification will be significant and will include:



- Revision to methodology statements by Transporters
- Shippers devising market strategies to participate within new process.
- Evaluation by consumers of the value of capacity to their business.
- System adjustments to include to create new auction process and storage of capacity holdings information.
- Adjustments to the Transporters' safety cases.

Proposed implementation timetable (including timetable for any necessary information systems changes)

We have no comments on the proposed implementation timetables.

Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications identified

Further Comments

None

Should you wish to discuss our response further, please feel free to contact me.

Yours faithfully

Gareth Evans
Regulation Analyst
Total Gas & Power Limited

Direct: +44 (0) 20 7718 6081
E-mail: gareth.evans@total.com

