

## **Representation For.0035**

### **"Revisions to Section Q to Facilitate the Revised NEC Safety Case" Version 1.0**

**Date of Communication:** 15/09/2005  
**External Contact:** John Costa (EDF Energy)  
**Slant:** Against  
**Strictly Confidential:** No

#### **Abstract**

Representation for 0035 "Revisions to Section Q to Facilitate the Revised NEC Safety Case" Version 1.0

Date of Communication: 14/09/2005  
External Contact: John Costa (EDF Energy)  
Slant: Against implementation  
Strictly Confidential: No

Dear Julian,

Thank you for giving EDF Energy the opportunity to respond to Network Code Modification Proposal 0035, " Revisions to Section Q to Facilitate the Revised NEC Safety Case". EDF Energy does not support the implementation of this modification as we do not believe it will further Transco's relevant licence objectives. The reasons for which are contained in our responses to the DMR questions below.

However, on a general note, EDF Energy is concerned with the way Transco has changed its Safety Case bilaterally with the HSE without consulting with the industry knowing that it would directly impact their contract with Shipper's under the UNC. We do not believe this is the most efficient or correct way to bring about necessary industry changes. We would urge Transco to enter into dialogue with the industry to develop proposals relating to their safety case first and then raise a modification as it has done so in the past - e.g. as under modification 0013a.

a) Would implementation incentivise Users to exhaust their storage stocks prematurely?

We believe that Users under this proposal will be incentivised to withdraw their gas in store when faced with a potential storage breach or system emergency. Monitor and storage levels are now openly published and shippers are now able to identify whether a potential emergency is imminent. Prices during this period are likely to be high thereby fuelling the need for extra storage withdrawals even though the system may be in a healthy state. This adverse market reaction is neither economic nor efficient and would only expedite, or possibly prolong, an emergency making it counterproductive to ensuring system

security.

The fact that there is no compensation scheme associated with this proposal creates discrimination between different system Users. For example, Shippers bringing gas from offshore will under such an emergency have the fall back of being compensated for any losses from having to curtail or flow extra gas onto the system. Shippers with gas in store will not be recompensed for the "command and control" type curtailment of their gas flows which they have contracted for. We believe that this modification would reduce the market for storage gas to support portfolios which could raise security of supply issues.

b) Would implementation increase exposure on the gas market to very high price gas for those Users reliant on gas in storage to meet their daily gas demands?

As stated above, the risks associated with this modification relate to the market over reacting to a "potential" emergency following low storage levels. This may artificially inflate prices and affect storage Users ability to withdraw gas at times of need to support their portfolios. This may decrease the demand for physical storage products and increase the reliance on physical gas flows ahead of time which would push up prices in the forward market for winter periods. Any extra industry risks which may drive up wholesale gas prices are not desirable during this period of unprecedented high energy prices.

c) Would implementation introduce or exacerbate any commercial disparity between Users holding gas in storage that is allowed to enter the System and that required to remain in storage?

Certainly, if Transco was able to discriminate between storage facilities in determining which to restrict then this statement would be true. For example, monitor levels at short-term storage facilities, which have rapid injection and withdrawal rates, could easily be breached on a day but yet restricting withdrawals could jeopardize system security as the rapid withdrawal of gas could avert a full scale emergency.

d) Recognising the above and the potential for sterilising gas in storage, when a Network Gas Supply Emergency has been declared, would implementation adversely affect the economics of investment in storage?

This is certainly true if storage Users are discriminated upon as stated above and the use of storage is restricted when responding directly to commercial price signals. This proposal could therefore undermine the effectiveness of the UK NBP market and lead to lower levels of market liquidity at a time when levels are already at an all-time low. The economics of new storage investments would change as shippers look to sign more flexible gas supply contracts with swing or opt for "virtual" storage contracts or more complex option trading as a way of mitigating their balancing risk. We note that there are a number of new storage assets being built or requesting planning permission which may not be completed if the market risks and commercial signals change.

e) Would implementation lead to the introduction of perverse incentives when "command and control" of storage, is operating in parallel with the daily gas market?

As stated above, we believe that this proposal would introduce a level of discrimination against certain types of Users who procure storage or offshore swing gas as a means of satisfying their portfolio demands.

f) Would implementation of this Proposal lead to additional quantities of contracted gas in storage being unavailable for use by the contracting party as expressed by some members of the Transmission Workstream?

Yes. This proposal would effectively provide Transco with "carte-blanche" rights to curtail withdrawals at any or all storage facilities if a storage monitor level was breached by 1kwh. This would change shipper's perceived value of contracting for storage going forward whilst distorting Shipper's current contractual arrangements for this winter. Therefore, if Ofgem were to implement this modification we can not see how it can be implemented before this winter when Shipper's have already valued and contracted for their use of storage facilities for this winter; the earliest this modification could be implemented by is October 2006.

Finally, EDF Energy would like to highlight that Transco can enter into demand-side contracts with Shippers and/ or customers for turn-down services as NGC does in electricity. We note that Transco began to develop these types of proposals 2 years ago during their modification 513 Energy Balancing Review but has not progressed this work since then. We recognise that Transco no longer feels that it is their duty to drive this work but we believe that by facilitating these types of contracts Transco would be furthering the relevant objectives of their licence by maintaining a safe, economic and efficient pipeline system.

We note that Transco has today published the storage monitor levels for this winter which we have not taken into account due to the tight deadlines involved.

We hope our comments have been useful but please contact me if you need to discuss any of our comments further.

Regards

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