

Modification Panel Secretary
Joint Office of Gas Transporters
Ground Floor Red
51 Homer Road
Solihull
West Midlands
B91 3QJ

Dear Mr Majdanski

Re: UNC Modification Proposal 0035

EDF Trading (“EDFT”) wishes to submit the following in response to the above modification proposal.

EDFT does not support the implementation of modification proposal 0035 on the basis that we do not believe that it would better facilitate the relevant objectives provided for in the NTS Transportation Licence, in particular;

- Standard Licence Condition A11(d) – the proposal will impose costs on particular Users and is discriminatory in nature. For these reasons it will not promote competition and will not enhance security of supply.
- Standard Licence Condition A11(a) – due to inappropriately targeted costs and skewed incentives encouraging “premature” withdrawal of gas from storage the proposal will not facilitate the economic and efficient operation of the pipeline system.

The background to this assertion is contained in the answers to the questions posed by the SME in the DMR, and as provided below.

EDFT notes that the justification for the implementation of the proposal is to bring the UNC in line with Transco NTS’ Safety Case. It should be recognised that unlike the Safety Case the UNC is a commercial contract which can be negotiated and modified by all Users. To impose change on a commercial contract due to bilateral changes made to the Safety Case is not a reasonable justification.

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

Clearly, if it becomes apparent that a potential breach is imminent, Users knowing that it is possible that withdrawals maybe stopped will look to flow gas at higher rates. Indeed, it may be the case that the market will “overreact” to the potential breach and prices may become artificially inflated adding extra incentive for Users to withdraw gas from storage.

In the event that this behaviour is encouraged then we would argue that it is counterproductive to facilitating system security as storage facilities are exhausted on relatively low demand days.

We fail to understand why the proposal does not consider the introduction of a compensation scheme, recognising that Users have purchased gas and storage capacity to support their portfolios. It appears to be inappropriate and probably discriminatory that Users' gas supplies can be constrained for the benefit of the overall system without the system compensating the effected Users for the provision of this service.

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 above, market sentiment is likely to exacerbate price responses and directly impact those Users reliant on storage to support their daily needs. It seems entirely plausible that certain players could use this mechanism to generate excessive profits through trading i.e. those which are not impacted by the embargo.

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?

Particularly true of those Users who hold gas in relatively small quantities. Also those who hold gas in smaller facilities which are immaterial in relation to other sites and general security of supply. EDFT believes that the monitor approach is far too simplistic as it fails to recognise the importance of injectability and deliverability. The monitors are based on gas-in-store, overlooking the critical contribution of injectability and deliverability on security of supply.

EDFT owns and operates the Hole House Farm facility which unlike other "similar" facilities e.g. Hornsea, has the capability to transfer from maximum injection to maximum delivery within hours. Curtailing the operations of Hole House, which in space terms is immaterial when compared to Hornsea, will negate the positive impact it can have in supporting the system. We would draw your attention to the role Hole House played in assisting the system during the recent summer season. Purely, by reacting to economic signals Hole House moved from injection to delivery in very short timescales and as a result made significant contributions in achieving acceptable levels of system balance. This experience underlines the important role rapid churn facilities can play in supporting the system in an environment driven by economic signals.

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?

Given that storage is acquired to supply gas in response to market signals, any rule which inhibits this behaviour will undermine investments. Not only will there be a disincentive to build new storage, or enhance additional facilities,

but Users will be reluctant to purchase storage capacity if there is a possibility that it is constrained.

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?

Purchase of storage is a commercial decision, no different to buying offshore swing gas and buying gas from traded markets. To remove control of storage, to another party, who has no commercial right to it goes against market principles. In the event that the market is short of gas, the prices will reflect this, requiring the withdrawal of storage gas. To impose restrictions, based on arbitrary measures i.e. storage monitors is unacceptable. The imposition of this restriction is a far worse situation than the continuation of Top-Up which at least targeted the costs of maintaining system security.

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?

This is possible if a particularly large storage site depletes and triggers the monitor. This will mean other sites categorised in the same class of facility will be unable to access gas in store. Independently, smaller sites will not affect the monitor as discussed earlier.

g) If implementation did lead to the creation of new perverse incentives would this lead to an increase in the cost of gas on the market?

Yes. The value of peak gas will be increased as Users factor in the risk of being unable to withdraw gas. Also, and as already discussed, Users are likely to withdraw gas prematurely which will further reduce the availability of supplies on high demand days.

h) Would implementation increase the requirement for interruptible contracts as identified by the Transmission Workstream?

It is quite likely that peak day supplies will be limited increasing the need for demand side management. Such an increase might not be popular with customers and, for certain Supply Points, might not even be possible.

i) Would implementation undermine the current contract value of storage as some Transmission Workstream members believe?

Without doubt, it would be expected at the time of purchase that all units of gas could be freely flowed into and out of the facility at the request of the User, subject to contractual and operational constraints. The imposition of new rules which will potentially limit the utilisation of storage gas and capacity will undermine holdings.

Finally, EDFT wishes to point out that under its Licence, Transco NTS is at liberty to utilise a number of tools in order to manage the network. Transco NTS can enter into commercial contracts with Users to maintain system integrity and in our view should look to engage in such contracts rather than compromise the commercial position of a few Users. Transco NTS can enter into contracts with storage operators, or other flexibility providers (supply or demand side) and the costs of these contracts will be appropriately targeted.

We trust you find our comments useful and if you have any questions then do not hesitate to get in touch.

Yours sincerely

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