

**Representation For. 0035**

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

**Date of Communication:** 09/09/2005  
**External Contact:** (Powergen Uk Plc)  
**Slant:** Against  
**Strictly Confidential:** No

Friday 8 September 2005

Response to UNC Modification Proposal 035 Revisions to Section Q to facilitate the Revised NEC Safety Case

Dear Tim

E.ON UK is strongly opposed to this modification proposal.

We have serious concerns with regards to some of the reasons given to support this proposal, with respect to changes made to the NEC Safety Case. The industry does not have any opportunity to consult on proposed changes to the Safety Case, which thereby overlooks an important and valuable area of expertise that might otherwise be considered when proposing any changes. Consulting the wider industry on proposed changes to the Safety Case would ensure that the HSE can be fully confident that they have a broader understanding of changes proposed, their impact on the System and the behaviours of market participants. Given concerns raised already in consultation on this proposal, the HSE may have taken a different view when considering changes previously proposed.

A more holistic approach would have better addressed concerns, through ensuring that all aspects and impacts of changes proposed were given due consideration. It has previously been stated as an advantage that this proposal may sharpen incentives, such as increasing incentives on shippers to enter into interruptible contracts, however, work ongoing in the Ofgem lead Demand Side Working Group (DSWG) has noted that there are a number of barriers to offering demand side response, all of which need to be considered when proposing changes to incentives to offer that response. If customers remain unwilling, as expressed by some customers in the DSWG, to offer interruption, or are physically unable to offer interruption within the required timescales, then no amount of commercial incentives will better facilitate bringing that gas onto the system.

We find it unfortunate that this proposal was not raised as two separate

modifications. The Safety Monitor element of the proposal is clearly linked to fundamental changes to the Safety Case and the other element relates more to "tidy-up" changes, required to reflect the Network Sales and provide clarification on more general amendments. Separating the proposal into two separate modifications would better facilitate the relevant objective (f) the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code, through promoting flexibility in the decision making process. In the event that the Authority does not support implementation of the fundamental changes proposed, it would have to reject the proposal as a whole and the changes made purely to clarify sensible, incremental changes would fall away as a result. Moreover, more industry wide support would likely result for a proposal based solely on the incremental changes.

This proposal is inconsistent with Transco's role as a residual balancer. Such unnecessary interference in the market would impinge on the ability for Users to respond to market signals to avert an emergency. Stage 1 of an emergency indicates to the market that there is a potential gas emergency, where there is sufficient time and sufficient gas available, for the primary system to be rebalanced without recourse to Stage 2; this includes maximising the availability of linepack, storage and interruption. It would not be possible for shippers to maximise the availability of storage if this proposal were implemented as National Grid would be unduly withholding it from the System. It is clear, therefore, that this proposal creates a barrier to offering response to avert an emergency and undermines the concept of storage, of meeting consumer demand at peak periods.

Owing to the above, the economics of investment in storage would be weakened and contracts already in place for storage this winter would be undermined. Users may have already paid for gas in store, ahead of this winter. Any proposal, which then supersedes those arrangements to prevent those Users withdrawing that gas at a time when it is of greatest value to them, is fundamentally flawed and would undermine the current contract value of storage and reduce the incentive to develop storage assets, thereby threatening long-term security of supply.

We disagree with the proposer that gas associated with the protection of domestic or priority loads would be better conserved as a result of implementation. Rather, we would suggest that implementation would reduce the ability for shipper suppliers to maintain supply to domestic or priority loads as they would be prevented from taking gas out of store to meet that demand.

A further concern relates specifically to the Storage Monitor levels, which have yet to be confirmed. The proposed monitor levels are likely going to be set at a very high level and the potential to breach them may exist on a normal demand day. In a price sensitive gas market, such as that seen in the UK, this

could lead to high prices, which do not reflect the true market position. Parties may chose to take considerable amounts of gas out of store in advance of any anticipated curtailment of their withdrawal rights by National Grid, leading to a potential emergency and during that emergency, sell the gas at artificially inflated prices.

The above is also of concern if a marginal emergency cash-out price is implemented as Users, which are less likely to be able to remedy a short position in the market might then be hit by a penal emergency cash-out price.

It would be particularly inequitable if a prudent shipper that held back from withdrawing gas from store to cover potential high demand periods later in the winter was disadvantaged because other shippers had depleted stocks of gas at a faster rate and this prevented them from accessing storage gas, when needed. In such circumstances, a shipper should be entitled to receive a payment from Transco for the gas it was forced to keep in store, which at least covers any consequential imbalance position, which may arise from gas being effectively locked in store.

It would have been advantageous to the industry to have more time to fully assess the monitor levels and their relation to this proposal. Whilst we broadly agree with the principles behind them on beach availability and new import capability, the method used to calculate the monitor levels, based on those assumptions, needs to be assessed on an industry wide basis as some of the levels appear to be artificially high.

We remain particularly concerned with the amount of National Grid discretion in defining an "imminent" breach of a safety monitor. We were given confidence in the Transmission Workstream, held on 4th August that this would be clarified in the legal text. It was previously stated by National Grid that where nominations on the day before or within day would lead to an actual breach, being a set amount below the actual monitor level, this would result in what would be classed as an "imminent" breach of a monitor. Without such clarification, Transco would have discretion to operate command and control on gas in store, before the market has been suspended.

Please do not hesitate to contact me if you wish to discuss any of the above.

Yours sincerely

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