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Dear Julian

UNC Modification Proposal 0035 Revisions to Section Q to Facilitate the Revised NEC Safety Case

Gazprom Marketing & Trading Limited does not support the implementation of modification proposal 0035 - Revisions to Section Q to Facilitate the Revised NEC Safety Case – as it would not better facilitate the relevant objectives.

The modification does not promote competition in the shipping and supply of gas as it is discriminatory between users employing different tools to balance their portfolios. The modification also risks putting additional costs on to the users of some classes of storage users rather than sharing the costs of securing the system. Further more it is likely to result in the premature withdrawal of gas at some storage facilities that could in itself reduce the security of supplies and damage the interests of the final consumers.

Gazprom feels that the command and control measures that would result from this modification, in a competitive market, are only appropriate at times when the system is operating under emergency procedures. It undermines the operations of the market to know that the system operator can take control of assets and the gas they hold at times of system pressure rather than leaving it to the market to respond.

As the market will still be in operation when these extreme actions are taken we are surprised that Transco has not suggested that it would compensate users for the gas they will in effect take title to. If Transco had considered a variety of tools for managing system security they could have gone to the market asking for offers of storage products, offshore reserves and interruption. There is nothing under Transco's licence that would preclude them from taking options for balancing gas or even to hold gas in store, however all such products come at a price.

It must also be recognised that the modification would undermine the value of the storage positions that some users have taken. When buying storage the value is assessed on the basis that the facility can be used at times of system stress. Knowing that the facility may not be available when a user may place most value on it alters the price they would have been willing to pay. This ultimately impacts the value of the facilities and the economics of new build.

While Transco asserts that the modification proposal is required to bring the UNC in line with its safety case Gazprom does not believe that to target change at one set of users is equitable. There are a number of tools that Transco could have considered prior to going down this route. As we are not certain exactly what changes have been made to the safety case we cannot understand why it is only this modification that meets the requirements laid down by the HSE. Transco may have come up with a more balanced proposal in discussions at a wide forum before drafting a modification.

Gazprom hopes that Transco has explained to the HSE that its proposed modification may result in users withdrawing gas faster and earlier than would otherwise be expected. Were shippers to believe that a breach of the storage monitor levels is probable they will try to withdraw as much gas as they can. The monitoring of gas in store will become a prime focus over the winter rather than shippers looking for the most economic supplies as they will not want to end up with a stranded asset in the form of gas “locked in” store. In fact we suspect the market may cause an earlier monitor breach if it believes one is likely due to over reaction. This seems to be contrary to the intention of the modification.

Gazprom is in no doubt that this modification is likely to increase the cost of gas to end users. Firstly it will skew the market for storage and the associated costs of peak day gas. It is also likely to result in gas from storage being taken out of store earlier in the winter. As a breach nears there is likely to be flat out withdrawal of gas, which may briefly depress prices, and once monitors are breached prices are likely to be inflated as distressed storage users go to the market. The impact on volatility will hit some shippers more than others, meaning that some will effectively pay for system security while others will not.

As mentioned above, Gazprom believes that the modification is likely to deter further investment in storage at a time when the UK market needs additional storage to support a growing reliance on gas imports. The smaller facilities, in particular when embedded into the network, can provide significant benefits in terms of system support by the way they can alter flows rapidly. This is normally just in response to market signals, though Transco could buy such balancing services if it chose. The idea that these sites would be commandeered by the system operator at times of system stress makes investment far less attractive for commercial players.

As Ofgem has a duty to ensure all reasonable demands for gas are met, they should also be concerned that the end users may see increased interruption. Shippers with storage positions may also use interruption as a means to balance their portfolio. As these tools remain open to them after a storage monitor breach, and gas prices are likely to be climbing, it is highly likely they will interrupt as many of their customers as they can.

If you have any questions about any of the points raised in this letter please do not hesitate to contact me.

Yours sincerely

Mahul Raval
Director of Operations