



Global Markets & Investment Banking Group

14 September 2005
Mr. M. Berrisford
Joint Office of Transporters

Dear Mike

Response to UNC modification proposal 0035

Thank you for the opportunity to respond to modification proposal 0035. Merrill Lynch Commodities Europe (Trading) Ltd (MLCE) has a number of comments which are detailed below.

Our main concern relates to the commercial impacts of this proposal. Storage users will be subject to significant losses should the use of storage facilities be constrained as a result of this type of emergency. The most significant impact will fall on those shippers that have not removed gas from storage and are therefore not responsible for the breach of the GSMR Safety Monitor.

With current considerations of the incentives linked to cash out during emergencies, and noting that the market will continue to operate until a Stage 2 emergency is invoked, it would appear necessary to consider how to compensate shippers with gas locked into storage. It may be difficult to ascertain the economic loss in an emergency situation, but storage owners should be allowed to receive the emergency cash out price for gas locked in store that could have been used to offset subsequent imbalances. This would provide some compensation for lost opportunities, but more importantly would offset potential imbalance costs that could arise where storage gas cannot be used to resolve imbalances.

Without a compensation mechanism, the incentive benefits mentioned in the proposal are significantly weakened. In fact, faced with risk of economic loss shippers may be encouraged to remove gas from store earlier than would have been optimal.

Given Transco's concerns expressed elsewhere about how interrupted shippers that are short should not benefit from emergency cash out arrangements, it appears remiss not to consider the implications on shippers that may be forced into an imbalance position because gas supplies in store are commandeered.

The modification should seek to link properly the commercial and non-commercial operation of the gas system. Creating differences between different storage and beach supplies will alter the value of different assets and could impact on long term development.

In terms of definition, we would also prefer more clarity on what constitutes a potential breach of the GSMR Safety Monitor. The legal text uses the word 'imminent' but there is little explanation of what this means. Greater clarity could help shippers act in a way to help avoid the breach occurring. Surprising the market based on unclear rules is not acceptable given the commercial consequences.

Overall we cannot support this modification without proper consideration of how storage users are treated relative to other sources of gas and flexibility. We consider it important to make the commercial arrangements in emergencies consistent for all market participants.



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