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UNC Modification Proposal 0042
“Revised Emergency Cash-out Arrangements”

Dear Julian,

Thank you for your invitation seeking representation with respect to the above Modification Proposal.

The views expressed on behalf of Transco NTS in Modification Proposal 0044 (MP0044) and associated documentation are relevant to consideration of this Proposal. Furthermore, we note the Ofgem views expressed in the decision letter with regard to Modification Proposal 0021 (MP0021)¹.

Specifically we note, and support the Ofgem view, “that through paying shippers that are long the SAP rather than the 30 day average SAP will promote the economic and efficient operation of the system through encouraging price sensitive sources such as the interconnector or LNG storage to flow into the GB market”.

Additionally we note the comments made by Ofgem in respect of the “collective insurance” provided by the current arrangements and the conclusion that this has the potential to distort effective competition “as it reduces the incentives for shippers to contract ex ante for additional gas or demand side response, and results in cross subsidy between shippers”.

In our opinion implementation of this Proposal would be likely to increase the cash-out price under emergency conditions when compared with the current arrangements. This would mitigate against these potential distortions.

We therefore conclude that implementation of Modification Proposal 0042 would better facilitate the Relevant Objectives when compared with the current arrangements.

However we note that the potential implementation of Modification Proposals 0044 “Revisions to Emergency Cash-out and Curtailment Arrangements” (MP0044) and this Proposal are envisaged to be considered concurrently by Ofgem.

¹ Ofgem 0021 Decision letter 29th July 2005 “Uniform Network Code modification proposal 021 “Revision of the Emergency Cash-out Arrangements” “

We believe that the cash-out pricing proposal within MP0044 better facilitates the Relevant Objectives when compared with this Proposal. Our rationale in support of the pricing component of MP0044 is included in the text of that Proposal.

Additionally MP0044 also addresses the issue associated with Users imbalance amendment in the event of Emergency Curtailment scenario. We deduce from Ofgem's decision letter in respect of MP0021 that Ofgem considers there is merit in addressing both "price" and "volume" issues in the context of emergency arrangements.

NTS Transco therefore concludes that, while both Modification Proposals better meet the Relevant Objectives when compared with the current arrangements, the implementation of Modification Proposal 0044 would be preferable to implementation of this Modification Proposal 0042.

Please let me know if you, or the SME assigned to this Proposal, require any further information to enable preparation of the Final Modification Report.

Yours sincerely

Nigel Sisman