Representation For. 0061

"Facilitating further demand-side response in the event that a Gas Balancing Alert is triggered"
Version 0.1

Date of Communication:	21/11/2005
External Contact:	John Costa (Edf Energy Plc)
Slant:	Against
Strictly Confidential:	No

Abstract

Dear Julian

EDF Energy welcomes the opportunity to respond to the urgent modification 061 'Facilitating further demand side response in the event that a Gas Balancing Alert is triggered'. Whilst EDF Energy sympathises with the intent of this modification it can not support it in its current form as it will not further the relevant objectives of National Grid Gas's GT licence.

We understand that the proposal's intent is to enable end-users who are 'non-trading parties' to find a way to market for their gas in the event that gas prices increase to levels that warrant switching their plant off for one or more days by offering their gas to NGG via the OTC markets. Whilst we agree with this we have identified several major fundamental flaws which we address below:

- The proposal discriminates against end-users who are 'trading parties' in the event of a Gas Balancing Alert (GBA) as they will not have greater opportunities to transact with NGG other than through the correct route of the OCM.
- The proposal will undermine the effectiveness and profitability of the OCM, a platform specifically designed so that Shippers can trade unilaterally with NGG. We understand APX has been making major changes to allow the effects of this modification to proceed and agree with these changes in principal, but we question how changes can be made to Shippers trading systems when the modification proposal has not finished its due course?
- We do not understand the materiality of the proposal and whether such a fundamental change to the way Shippers operate commercially in an emergency should be changed this close winter. We understand NGG has raised this urgent modification on behalf of end-users who have shipper's licences but are not OCM trading parties yet NGG has failed to state how many 'non-trading' parties wish to transact in this way or how much volume they can release to NGG . We particularly fail to see how NGG can not know how many 'non-trading' parties they wish to trade with when they state they will specifically select these shippers who are not OCM signatories to trade with in a GBA.
- We believe the complex, arbitrary and manual nature of deriving cashout prices under this proposal will delay the publication, and quality of, market reflective prices. This will only serve to produce inefficient and late market signals which could create a significant amount of confusion during a GBA, a time when market participants need clear and

defined market signals. It is difficult to see how NGG will appropriately calculate effective cashout prices greater than day ahead, let alone 7 day's ahead, as the proposal suggests, when they claim they do not have efficient balancing data further than 1 or 2 days out.

- The implementation of this proposal will require changes to NGG's SMPS procedures yet the industry has not seen a copy with this proposal upon which to comment. It was also identified that NGG's incentives would need to be changed to include OTC trades. This will take several months and we question how this proposal could be implemented without effective and efficient NGG balancing incentives.
- It is not clear that NGG would receive the demand-side response that this modification sets out to achieve as NGG will be accepting OTC trades which are NBP (i.e. Title trades which do not require physical turndown). NGG has complained in the past that it finds Title trades are not efficient during tight system operations and that they prefer physical or Locational trades so it will be interesting to see what effect if any title trades will have to resolve a GBA. Also, there is no guarantee that the gas has actually been purchased for that site as nominations are only day ahead yet the site could have chosen to be off already for several days due to high prices or maintenance periods which NGG would not necessarily know about.

EDF Energy does agree with the principal of a GBA as per our response to modification 062 as a signal for demand-side turn down. However, it is evident that this proposal will introduce a great deal of complexity which will now have to be managed by Users and Transporters requiring new operational procedures and training of staff at a time when the industry should be focusing on managing their portfolios and supplies for winter. Given that NGG has failed to state the materiality of their proposal we can not see that such a 'slap-dash' urgent modification is warranted this far into the winter period. We have already seen unprecedented gas prices for November when there has been little or no system concern and we believe this modification will only distract, confuse and increase Users balancing risks even more ahead of winter which can only have a bullish effect on system prices.

We do agree with the principal of the modification to find a route to market and believe that this should be through their suppliers as discussed at Ofgem's September DSWG meeting. The other alternative is that end-users become signatories on the OCM where they can contract directly with NGG through title or Physical and location trades which will have real physical demand-side turn down.

We hope our comments have been useful but please contact me on the number below if you wish to discuss further.

Regards

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