



Representation for Modification 0086:

Introduction of Gas Demand Management Reserve Arrangements

Corus can offer qualified support for GDF's proposal. The fact that the proposal addresses the requirement for appropriate compensation and incentives for demand side response is the point of greatest relevance to Corus. The proposal usefully introduces the concept of availability payment which may encourage consumer response: users are more likely to react to known benefits provided by a direct financial incentive.

We must underline that the majority of our demand is for firm gas which does not have back up fuel, nor can be shut down quickly without damaging product and plant. The predominant response from manufacturing is likely to focus mainly on compensation, ie. the best price for the gas foregone *in extremis*. However, for production that can be reduced by fuel switching or short term shutdown, then a low-risk demand side response mechanism is attractive .

There has been considerable debate regarding the absence of significant demand response. Current schemes available via some suppliers have not been palatable and include the pass-through of shipper's exposure to system buy prices in the event (albeit unlikely) of under-delivery. We are unwilling to recommend any exposure to the system penalties to our end-users in the event that a site, for unforeseen circumstances, has not been able to deliver the full quantity of demand response. The cashout mechanisms introduced via Mod 0044 were intended to provide an incentive for shippers to balance their portfolios, and not to pass these unquantifiable risks on to reluctant market participants (end-users) who are offering an essential service in difficult circumstances. For this reason we welcome the flexible delivery tolerances outlined in the proposal.

The modification therefore potentially introduces appropriate risk and compensation to industrial users for their much required demand reduction. However, without accompanying detailed workings on how National Grid would implement the proposal, it is difficult for us to provide full support. We would also observe that the timing of the proposal clashes with traditional periods of review in the lead up the start of a new gas year. At the very least, the proposal should trigger innovative solutions from 'competing' shipper/suppliers for contracting demand side response for this coming winter.

Corus Energy Supplies

19 June 2006