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UNC Modifications Secretary
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Dear Julian

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Uniform Network Code Modification Proposal 0086 – Introduction of Gas Demand Management Reserve Arrangements

Thank you for the opportunity to respond to the above modification proposal. Clearly, as proposer of modification 0068, Gaz de France ESS supports the implementation of this modification proposal. In our response we have re-iterated the case as to why implementation furthers the relevant objectives of the Uniform Network Code and benefits security of supply.

Security of supply

This modification proposal, if implemented, would enhance security of supply to UK customers for winter 2006/7 and subsequent winters. Implementation of this modification proposal the potential to help alleviate concerns over supply/demand balance on peak days and decrease the likelihood of progressing into a Gas Deficit Emergency. We believe that this modification will bring forward voluntary demand reduction in a managed and structured way ahead of involuntary demand curtailment for the Industrial and Commercial community in stages 1 to 3 of an emergency.

In line with our presentations at OFGEM's Winter Outlook seminars and in light of our experience of winter 2005/6 we believe that the pronounced delay effect that we have illustrated represents a significant defect in the current arrangements, which needs to be addressed ahead of the coming winter. In light of the experience of the previous winter, including the first Gas Balancing Alert (13 March 2006), and the forecast of a tighter winter ahead by National Grid, such arrangements need to be in place as a matter of urgency.

Improved demand response from Industrial and Commercial customers is complementary to that of CCGTs and can help to balance the burden of demand response to help ensure that security of supply in electricity is maintained via adequate plant margins, in the event that there are simultaneous problems with electricity and gas supplies.

Relevant objectives

Implementation of this modification would better facilitate the following relevant objectives:

- (a) “the efficient and economic operation of the pipeline system” by ensuring that National Grid Gas NTS has an addition to the necessary but limited tools available to facilitate its residual balancing role.

Gaz de France ESS believes that contracting for gas reserve in an economic manner in advance may protect the residual balancer from on-the-day exposure to very high prices on difficult days and as such introduce additional efficiencies and reduce the overall costs of system actions. Price stacking of utilisation offers from demand side participants alongside supply side offers on the OCM encourages an efficient and economic outcome on days where the system balance is tight and provides for a broader range of actions available to the system operator. National Grid NTS will be incentivised to ensure efficient and economic procurement of the gas volumes to be utilised via this mechanism.

The additional tool of actions taken as part of a demand side response scheme can help to hedge against supply side failure; for example losing a key storage asset or deliveries from ageing offshore fields. A structured demand management scheme can play a crucial part in avoiding a Gas Deficit Emergency and produce additional flexibility to maintain the supply/demand balance when the system most needs it, particularly where all supply side options have been exhausted or where they are uneconomic.

Enabling multi-day offers to be utilised as part of the scheme will remove a barrier to participation from parties who can reduce their demand but only for a longer duration than the gas day. Releasing incremental volumes in this way can help the system over more prolonged period if for example there is a sustained spell of cold weather.

Improved visibility of information relating to the volume of demand response contracted for under the scheme can have a number of benefits; it may allow an adjustment to the GBA trigger level and thus reduce unnecessary market volatility.

(d) “the securing of effective competition between shippers and suppliers”

Targeting the costs of the scheme into the System Marginal Buy Price further strengthens the incentive for shippers to balance. Any shippers who are short of gas will pay SMP buy including the cost of demand side availability, and utilisation where actions have been taken. This re-enforces the “polluter pays” principle of cash-out pricing by ensuring that the economic value of demand side actions are properly targeted.

Gaz de France ESS has proposed that participation in any scheme is voluntary therefore enhancing the range of contracts available to customers. We have witnessed this through our experience in the electricity market, where formal demand side arrangements have been in place and operated successfully for many years. Here, we have operated commercial arrangements alongside National Grid administered schemes successfully for many years and we envisage the same success on gas.

Specifically, those parties who want to be available to help the system on difficult days only, can do so under the scheme but this should not inhibit commercial terms. Those parties who wish to benefit from commercial interruption arrangements can continue to do so either alongside or instead of a National Grid tender scheme.

(e) “the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards are satisfied as respects to the availability of gas to their domestic customers”.

Removing barriers for demand side participation brings forward additional volumes that may not otherwise have been seen on a voluntary basis ahead of emergency interruption in stage 1 (interruptible) and stage 3 (firm load shedding) of a Gas Deficit Emergency. Bringing forward such volumes decreases the likelihood of escalation into an emergency and as such acts as an additional buffer to protect storage monitors and help prevent curtailment of storage flows, thus protecting security of supply for domestic customers.

Other information

Whilst the intent of this modification is to enable suitable demand management reserve arrangements to be put in place, we are aware that the full details of a tender scheme itself are not currently developed and that inevitably there will be questions raised in response to the proposal that relate to the operational nature of a scheme. Gaz de France ESS is happy to work together with National Grid and other parties to progress the development of a scheme further. Indeed, we have actively sought to develop the details of a scheme throughout the process to date with limited success due to a lack of interest from relevant parties. However, it is pleasing to see very recent developments made via a re-draft of National Grid's System Management Principle's statement to incorporate change, which we believe to be relatively minor, that would be required should this modification be implemented.

In conclusion Gaz de France ESS supports implementation of this proposal on the grounds that it better facilitates the relevant objectives as detailed above and improves security of supply. We would encourage a timely decision on this proposal to enable the full benefits to be realised ahead of winter 2006/7.

If you have any queries regarding this response please contact me on 0113 306 2104.

Yours sincerely



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