

Received by email 18 June 2006

Modification Proposal 0086: Introduction of Gas Demand Management Reserve Arrangements

Thank you for providing SGN with the opportunity to comment on the above modification proposal. At this point in time SGN is only able to give qualified support to the proposal.

Whilst we are supportive of the principle and believe there may be some merit in such an approach, we believe it lacks detail and requires significant further development.

We note that the Proposer has stated that further development is required and has suggested that this could be undertaken in parallel with progression of the proposal. We are not clear what aspects would be developed further, or the timescales for carrying out such work. We are also unclear how this would be taken forward under current governance arrangements and Modification Rules. Given these concerns, we can not support implementation of the proposal as it stands.

We believe there is considerable merit in the principle behind the proposal. We believe arrangements which provide customers with more time to contract, consider and understand requirements for demand side response, consider their own capabilities and how they could be managed along with primary business objectives and constraints should be more efficient and have greater certainty of deliverability. Such arrangements should allow customers to better plan and manage services and as a result price more efficiently. As such we believe the proposal could encourage more demand side response and help improve efficiency and security of supply. However it is impossible to fully assess the merits of the proposal without the detail.

The Proposer states that much of the detail of the tender scheme is outside the scope of this Modification Proposal. The Proposer states that the terms would be developed in conjunction with Users and potential participants. It has been suggested that the tender process would be defined by National Grid NTS but “informed by industry feedback”. We are not clear how or when this would take place. We do not believe this process is in keeping with current governance arrangements or the Modification Rules. The UNC is a contractual document. Operational arrangements and obligations must be clearly defined and consulted upon to ensure all market participants, particularly parties to the UNC, have an opportunity to fully assess any impact and comment on arrangements. Without following such a process it is difficult to accurately assess whether proposals better facilitate relevant objectives. Also arrangements must be clearly defined to ensure appropriate legal text can be developed which accurately reflects the proposal and which can be incorporated into the UNC.

We believe some of the basic details that still have to be considered and developed include:

- How NTS would determine the volume of demand side response required
- What customers or sites would be eligible for participation
- What information would be released to the market ahead of the tender process
- When the tender would take place
- Details of the tender process and timescales

- When and how would participants be notified
- What would the pricing arrangements and bid structures be
- How would bids be selected
- How would costs be treated and recovered
- Under what circumstances would NTS be allowed to exercise successful tenders
- How would bids be selected
- How would NTS be incentivised to minimise cost and improve efficiency
- How would volumes be treated
- What reporting would take place after the event
- How would failure to delivery be dealt with
- What is the IT impact in terms of cost and timescale
- Other implementation considerations
- What are the overall cost and benefits associated with this proposal
- It is not clear whether this is an NTS only arrangement or whether it is also applicable to customers connected to DNs. Assuming it would also be applicable to customers connected to the DN
- If applicable to DNs, it is not clear how this would sit with proposals for DN interruption reform

Whilst we are supportive of the principle behind the proposal, we believe there is insufficient detail to fully consider advantages and disadvantages. We believe significant further development is required before a proper impact assessment could be carried out and before it would be capable of implementation. Any attempt to implement this proposal as it stands, developing detail outwith the normal process, would only add to current uncertainty regarding demand side response and would not better facilitate relevant objectives or security of supply.

We hope you find these comments helpful.

Regards

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