

## TOTAL GAS & POWER LIMITED

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02 December 2006

Dear Julian,

### **Modification Proposal 0088 - "Extension of DM service to enable Consumer Demand Side Management"**

Total Gas & Power Limited supports the implementation of Modification Proposal 0088

#### **Our comments are as follows:**

At present we believe that the current market structure inhibits the development of consumer driven demand management from NDM sites, and that some form of daily metering is required for such consumers. Though any Large Supply Point can become a DM site (subject to Transporter approval) in the ten years in which this has been possible few, if any, sites have taken advantage of this facility.

We conclude this is due to the fact that the costs and complexity of moving to such a regime outweigh the contractual and commercial benefits of such of a reclassification. This modification attempts to rectify this position. The regime proposed, (detailed in the business rules), are proportionate for this class of site, as they attempt to create a regime that will encourage consumers to move to such a classification, without exposing the market to additional liabilities.

Efficiently facilitating the increase in the number of daily read sites, will increase security of supply as mid-sized I&C consumers can respond to market signals. Transporter will also benefit from additional information on system behaviour. Likewise Shippers will benefit from an additional mechanism in which to balance portfolio positions and increased competition.

With regard to the additional information on implementation on costs provided by transporters, we welcome such a commitment. The provision of costs has helped inform the debate considerably and we feel that Users have been able to make an informed judgement which otherwise would not have been possible.

The provision of this information has highlighted a key concern however. The timetable for implementation seems excessively long and will delay the benefits that could be captured for the winter of 2007/08. We would welcome additional information on this timescale for us to be satisfied that it is appropriate.



## **Extent to which implementation of the proposed modification would better facilitate the relevant objectives**

### ***Gas Transporter Licence Standard Special Condition A11.1***

***(a) the efficient and economic operation of the pipe-line system to which this licence relates;***

Implementation of the Proposal would enable DM(AMR) customers to undertake demand-side reduction, reducing demand upon the system at times of stress. This should aid efficient and economic operation of the pipe-line system, as well as reducing the role of the residual balancer.

Furthermore, the enhanced information gained from additional meter readings submitted by Users will help inform the Transporters about system demand, facilitating efficient and economic operation of both the NTS and DN pipe-line systems.

We note the concerns from the Transporter's agent over the reduction in the amount of information that can be used for the modelling of NDM profiling, but we contend this disadvantage is minor compared to the benefits of using actual meter reading information for balancing purposes.

***(b) so far as is consistent with sub-paragraph (a), the coordinated, efficient and economical operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters;***

We do not believe that this modification will further this relevant objective.

***(c) so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;***

The Proposal will facilitate an increase in the number of daily meter readings submitted and promote a higher level of demand-side response when required to balance the system. In the longer term, we would expect that the additional flexibility granted to consumers will lead to a reduced peak demand, facilitating efficient investment by the Transporters.

***(d) so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/ or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;***

Shippers are unable to reflect current NDM customers' variation in demand from that expected from forecasting without becoming an elective DM site.

Implementing this Proposal would allow DM(AMR) sites to have such flexibility and benefit from demand variation without the cost and complexity of being classified as a DM site. This would enhance the market, release gas to the market at an earlier stage than otherwise, encourage Shippers to self balance rather than rely on the residual balancer and improve cost reflectivity for sites electing DM(AMR) status, thereby promoting competition.

The modification will also improve the number of meter readings submitted to the Transporters, hence improving the amount of energy allocated to each market sector

We acknowledge that in statistical terms the NDM EUC profiles may suffer from a reduced sample size. We feel that the benefits of utilising actual meter readings to accurately apportion costs will outweigh this minor disadvantage.



- (e) *so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers’ licences) are satisfied as respects the availability of gas to their domestic customers; and*

Does not apply to this objective

- (f) *so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.*

Does not apply to this objective

### **The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation**

The Modification Proposal will improve the Transporters’ ability to manage the network as customers would be more likely to curtail consumption in response to market signals. Increasing the level of demand side response that Shippers can access from their customers will likewise improve their ability to balance their own portfolios. This reduces the likelihood that a gas deficit emergency will occur, improving security of supply.

By improving Shippers’ ability to balance, a reduction in the role of the Transporter could be expected, hence reducing costs.

We do not believe this modification will increase industry fragmentation.

### **The implications for Transporters and each Transporter of implementing the Modification Proposal, including**

#### **a) implications for operation of the System:**

Transporters will have access to greater levels of daily consumption information which will assist with efficient operation of the system. Shippers will also be better able to balance their own portfolios through accessing demand reduction from a greater number of customers, thereby reducing the role of the residual balancer.

#### **b) development and capital cost and operating cost implications:**

We welcome the information provided by the Transporters on the likely costs to be incurred from this implementation. We believe that the costs are reasonable (£300,000 - 500,000) and do not reflect a significant cost to the industry, in contrast to the fears expressed at the workstream that the costs could be substantially higher.

#### **c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:**

Owing to the level of cost not being excessive we do not believe that any additional cost recovery should be considered.

#### **d) analysis of the consequences (if any) this proposal would have on price regulation:**

No consequences identified.



## **The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal**

It is unlikely that there would be any significant increase in the level of contractual risk of each Transporter as a result of the Modification Proposal.

## **The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users**

We anticipate there will be changes to Sites & Meters (recognising site type), and SPA processes, with subsequent changes to invoicing processes. Users will only be affected if they wish to participate in the DM(AMR) market.

## **The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk**

Users will only incur additional administrative and operational costs if they decide to take advantage of the new market sector. The level of transparency provided by the proposed monthly reporting will mitigate against any potential misuse. Hence there will be no change in commercial risk.

## **The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party**

Suppliers will be in a better position to sell flexible contracts to customers based on daily metering, and additional consumers would be incentivised to respond to market signals. Some consumers may also wish to use AMR technology to deliver other benefits, for example demonstrating relative gas consumption between sites on a daily basis.

## **Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal**

No consequences were identified.

## **Analysis of any advantages or disadvantages of implementation of the Modification Proposal**

### **Advantages:**

- Increases the volume and flexibility of demand side response, so enhancing security of supply
- Improves Shippers' ability to balance their positions.
- Increased level of information submitted to Transporters, supporting processes such as AQ derivation and reconciliation.
- Facilitates the introduction of more flexible contracts into the competitive supply



market

- Facilitates the introduction of AMR technology within the market.

**Disadvantages:**

- A cost of £300,000 - 500,000 will be incurred by the Transporter's agent.

**The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation**

Not required for this purpose

**The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence**

Not required for this purpose

**Programme for works required as a consequence of implementing the Modification Proposal**

We would anticipate that there will need to be changes to the UK Link systems, in particular the Sites and Meters database to enable the modification to be implemented.

**Proposed implementation timetable (including timetable for any necessary information systems changes)**

We welcome the provision of an indicative development timetable by xoserve. We do have concerns over the implementation date proposed however.

It is our understanding that this implementation date takes into account a mandatory six-month delay before the change is considered by the UK Link committee; the need for the change to be included within a scheduled release and the UK Link refresh. In contrast, the proposed implementation dates for both Exit Reform and DN Interruption arrangements, both of which require substantial changes to the UK Link system, did not seem to suffer from such issues. We therefore question whether the timetable should be so delayed in light of the benefits that this modification will bring.

We also question whether this modification should await an enduring solution, considering the number of such sites currently eligible for such a status, though we expect the number of sites to rise exponentially. Manual workarounds seem sufficient for initialisation and would help gauge demand.

It is our view that if this implementation date is not brought forward, then the potential benefits to security of supply will not be achieved until after the winter of 2007/08.

**Implications of implementing this Modification Proposal upon existing Code Standards of Service**

No implications identified



***Further Comments***

None

Should you wish to discuss our response further, please feel free to contact me.

Yours faithfully

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