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Dear Julian

**Re: Draft Modification Report 0120 - Introduction of an SO Commodity Charge for NTS Storage Exit Flows**

EDF Trading (“EDFT”) is happy to submit the following in response to the above draft modification report.

EDFT does not support the implementation of this Modification Proposal 0120.

The Modification Proposal attempts to impose charges on nominated flows into and out of NTS Storage Sites in accordance with the Storage Commodity Rate as proposed in the associated Pricing Consultation GCM03.

As a result in essence this Modification Proposal is seeking to shift the recovery of costs from other flows into and out of the System onto Storage Users. The effect, therefore, is to increase the cost of using UK storage. In principle, EDFT would support such a move if:

- The adjustment to the cost recovery process was justified i.e. it can be shown that costs are incurred;
- The methodologies for allocating the costs and subsequent recovery of them was fair, efficient and made a positive contribution to the competitiveness of the UK Market; and
- The imposition of the charge would not compromise Security of Supply.

It is our view that the Modification Proposal fails to meet any of these aspirations and as a result should be rejected.

In relation to the first bullet, the examination of the validity of this claim would be better addressed in response to the methodology outlined in the accompanying Pricing Consultation GCM03, however, we believe it is appropriate to identify our reservations here. The premise of this Modification Proposal must be that there are indeed costs incurred by the System Operator in relation to the nomination of gas flows into and out of NTS Storage Sites. EDFT agrees that due to the “scatter gun” approach adopted by NTS in relation to its charging methodology that it can be argued that Storage Sites should not be anymore protected from spurious charges than any other point on the System.<sup>1</sup> What makes Storage sites very different to all other offtakes, including bi-directional interconnectors, is that Storage sites provide a significant, if financially unaccounted for benefit to the System.

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<sup>1</sup> It is a well understood feature of the current charging regime (both at NTS and DN level) that the methodologies are designed to under-recover costs from domestic customers at the expense of other offtakes.

Storage sites flow gas in a direction which benefits the System and reduce overall balancing costs without the SO having to contract for such services. Flows in out of storage will respond to wholesale prices, which turn reflect the supply and demand balance over a variety of durations e.g. seasonal vs diurnal. The responsiveness of other offtakes cannot be relied upon to provide such services as they tend to respond to other factors. For example, the Bacton-Zeebrugge interconnector should respond to UK-continental arbitrage opportunities, although frequently this is not the case. If it is assumed that it did respond to price differentials, it is very uncertain as to whether the flows would directly benefit the UK System as the reference price is external to the UK Market. Storage flows, on the other hand will take advantage of time based arbitrage opportunities specific to the UK Market and as a result will help the SO in minimizing balancing costs and the need to contract for balancing services.

As far as the second bullet is concerned the application of charges to nominated quantities is unfounded. This is particularly the case when applied to a high cycle facility which is likely to respond to short term price variations. We fail to understand that commodity charges, which must recover variable charges if they are to be cost reflective can be levied on activities which do not result in a physical flow. There can be absolutely no question that the imposition of this charge on non-physical flows will discriminate against high cycling facilities and as a result will dampen the commercial incentives to cycle. This, in turn, will damage liquidity; reduce the free benefits provided by storage flows and increase the marginal cost of gas.

Finally, and in relation to the third bullet, due to reasons stated above it is clear that storage cycling will be reduced. Also, additional and misdirected costs will impact the economics of storage provision. It can be asserted that unwarranted charges on storage will not improve the environment for future investment in storage and by extension, this Modification Proposal will, to some degree compromise future UK security of supply.

We trust you find our comments useful and if you have any questions then do not hesitate to get in touch.

Yours sincerely

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Head of Transmission and Regulation