

Julian Majdanski  
Joint Office of Gas Transporters  
Ground Floor Red  
51 Homer Road  
Solihull  
West Midlands  
B91 3QJ

Alex Thomason  
Gas Codes Development

Alex.thomason@uk.ngrid.com  
Direct tel 01926 656379  
Direct fax 01926 656605  
Mob 07770 982225

[www.nationalgrid.com](http://www.nationalgrid.com)

26 June 2007  
Our Ref: AHT/Mod 0149\_0149A response

Dear Julian

**Representation to Modification Proposals 0149/0149A: Gas Emergency Cashout Arrangements: Keeping the On the Day Commodity Market open during a Gas Deficit Emergency**

Thank you for the opportunity to respond to this Draft Modification Report (DMR).

As proposer, National Grid Transmission supports Modification Proposal 0149 and also offers qualified support for its alternate 0149A, with a preference for our original proposal. We offer the following reasoning, in line with the section headings in the DMR.

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

**Standard Special Condition A11.1(b): so far as is consistent with (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 transporter(s)**

We believe that both Modification Proposals would better facilitate this objective by enabling another "route to market" to be available for non UKCS gas supplies to enter the GB system, thereby potentially reducing the depth and/or duration of a Stage 2 or higher Network Gas Supply (Gas Deficit) Emergency (NGS(GD)E).

**Standard Special Condition A11.1(d) so far as is consistent with sub-paragraphs (a) to (c), the securing of effective competition: (i) between relevant shippers**

National Grid Transmission considers that keeping the OCM open to Users could help facilitate this objective by giving Users an extended opportunity to trade out their imbalances. Modification Proposal 0149 could also further assist by providing dynamic and market reflective incentives. National Grid Transmission accepts the argument of alternate proposal 0149A that continuation of the "frozen" emergency cashout prices would provide greater certainty to participants with respect to imbalance cashout exposures, however there is a risk that the prices "frozen" prior to an emergency would either not be sufficient to encourage additional merchant gas into GB during an NGS(GD)E or

be too high, leading to unnecessarily high financial exposure to Users. In either case, we consider that competition would not be best facilitated.

**Standard Special Condition A11.1(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 are satisfied as respects the availability of gas to their domestic customers***

Modification Proposal 0149 could better facilitate this objective through ensuring that market based dynamic cashout prices are set throughout an NGS(GD)E, thereby encouraging merchant gas into the UK during an emergency and potentially reducing the extent and/or duration of an emergency, including the need for or extent of curtailment of domestic suppliers.

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

Implementation of either proposal would have a positive impact on the extent and duration of an NGS(GD)E (Stage 2 and beyond) by increasing Users' options to deliver additional quantities of 'merchant' gas into the System.

National Grid Transmission does not believe that either Modification Proposal would have a detrimental impact on industry fragmentation.

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

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

Implementation of either Modification Proposal increases User options to deliver gas to the System during a NGS(GD)E (Stage 2 and beyond) and may therefore assist the Network Emergency Co-ordinator to minimise the extent and/or duration of a gas deficit emergency.

In addition, implementation of Modification Proposal 0149 would provide dynamic market price signals to encourage merchant gas flows to the GB market during a gas deficit emergency. In contrast to the alternate proposal, 0149 offers the replacement of a fixed price cashout scheme, where prices might be either too high or too low, by a dynamic market reflective scheme which should provide more appropriate and consistent incentives on Users to balance their portfolio of supplies and demand. Implementation would therefore have a positive impact on the efficient operation of the System by reducing the need and extent of system operator and/or NEC actions.

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

National Grid Transmission considers that, by providing an additional 'route to market' for merchant gas supplies, both Proposals may lead to a reduction in the depth and/or duration of an NGS(GD)E and may therefore lead to a reduction in the operating costs incurred during such an Emergency.

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

#### ***Development and capital cost and operating cost implications***

Neither proposal identified development or capital costs. However, costs would be incurred by the relevant Transporter if an NGS(GD)E were declared. Therefore if implementation of the Proposals

were to reduce the extent and duration of an NGS(GD)E (Stage 2 and beyond) there could be a reduction in the costs associated with managing such an Emergency event that would in turn reduce the scale of costs passed onto Users.

***Consequence for the level of contractual risk of Users***

We agree with the proposer of 0149A that the additional route to market would help Users better manage their imbalance exposure. However, although we recognise that Modification Proposal 0149 may change the level of contractual risk of Users, it will enable them to better manage their imbalance exposure than the alternate proposal, given that in the event of an emergency, the “frozen” cashout prices could mean that additional non-UKCS gas may not be attracted to the market due to being too low and therefore users may not be able to reduce their “short” position. Indeed, the retention of a fixed cashout price may lead to too high a price being maintained unnecessarily, thus increasing Users’ contractual risk over that proposed in Modification Proposal 0149.

**8. The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)**

National Grid Transmission considers that it is possible that implementation of both Proposals could reduce the extent and duration of an NGS(GD)E at Stage 2 and beyond and, if this were the case, this could reduce the costs faced by Consumers as a result.

**10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal**

**Advantages**

While both proposals have the advantage of providing an additional means for Users to deliver non-UKCS gas to the system during an NGS(GD)E event, we consider that our original proposal 0149 has the additional advantage of introducing dynamic, market derived cashout prices. Such prices would be responsive to the changing conditions during an NGS(GD)E event, thus providing the most appropriate incentive on Users.

**Disadvantages**

National Grid Transmission does not entirely agree with the stated disadvantage for Modification Proposal 0149 in the DMR. It is true that Users who are “short” would face a higher financial exposure if the cashout price increased from that applying at the onset of the emergency. However, it is not necessarily the case that Users would face similar exposures if they resolved their imbalance position by trading in gas on the Day. Modification Proposal 0149 sets the cashout prices for Users who are “short” as the highest Market Offer Price for transactions on the Day. Therefore, there is an incentive to users to resolve their imbalance as quickly as possible to avoid the perceived risk of prices being even higher later in the day, either through trading or through physical actions within their portfolio. Rather than being a disadvantage of the proposal, this increased exposure to market risk would serve as a further incentive on Users to address any supply demand imbalance in as timely a fashion as possible, thus aligning commercial incentives with existing criminal obligations.

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

National Grid Transmission considers that both proposals could be implemented immediately following the Authority's decision.

Yours sincerely

**Alex Thomason**  
**Senior Commercial Analyst**