Joint Office of Gas Transporters

Representation

Draft Modification Report

0333/0333A - Update of the default System Marginal Buy Price and System Marginal Sell Price

Consultation close out date: 11 February 2011

Organisation: **BG Gas Services Ltd**

Representative: Mark Dalton

Date of Representation: 11 February 2011

Do you support or oppose implementation?

0333: Not in Support

0333A: Qualified Support

If either 0333 or 0333A were to be implemented, which would be your preference?

Prefer 0333A (IF one of the Modifications has to be implemented)

Please summarise (in one paragraph) the key reason(s) for your support/opposition and preference.

We offer qualified support for 0333A on the basis that cost apportionment is slightly more acceptable, but overall we are not convinced of the merits of updating the default SMP prices from the perspective of improving the incentive for shippers to balance. We believe that the existing asymmetrical values work effectively and provide some well understood stability that aids market liquidity. During the development of this modification we have discussed methodologies and values that in our opinion could either be detrimental to market liquidity through reducing the incentives to trade (if the defaults are set either too low or too high). Implementing either of these modifications with the annual update provides a risk that the values might go out of kilter with levels that make the market work effectively. We would accept that the levels being proposed for October 2011 – September 2012 are fine but the potential to change based upon quite an opaque "operation system cost" creates an unnecessary uncertainty.

We firmly do not agree that this should be a user pays Modification that is targeting the costs solely to Users, mainly because we do not consider it a necessary amendment.

Are there any new or additional issues that you believe should be recorded in the Modification Report?

Relevant Objectives:

How would implementation of either modification impact the relevant objectives?

Economic and efficient system should also take into account overall market liquidity which over time supports the effective within day balancing market in the UK. If prices were to be set either too low (eg annual compressor fuel cost / total system demand), or too high (eg +/- 3p/th), then this is likely to lead to changes in market participant behaviour that might undermine overall market liquidity.

Impacts and Costs:

What analysis, development and ongoing costs would you face if either modification were implemented?

We don't really see the justification for the inclusion of the average forecast NTS capacity charges save for the fact that the methodology would be *de minimus* without such a term. In our view, it is likely to create additional price volatility and there has not been a compelling case for change made, aside from it being a new Licence condition. We do not believe that the existing methodology would be contrary to the expected proposals under the 3rd Energy Package.

Implementation:

What lead-time would you wish to see prior to either modification being implemented, and why?

October 2011 is acceptable lead time if change is mandatory.

Legal Text:

Are you satisfied that the legal text will deliver the intent of each modification?

NB: while formal legal text has not been provided, Suggested Text has been included in the modifications and comments on this will be helpful when the text is finalised.

Is there anything further you wish to be taken into account?

Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise.

No