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24th October, 2012

Re: Gas Security of Supply Significant Code Review - Proposed Final Decision

Dear Anjali,

Gaslink welcomes the opportunity to comment on the proposals set out in this consultation document, and makes these comments in its capacity as operator of the network downstream of Moffat.

General concerns

Gaslink shares the concerns of many of the respondents to the earlier consultation, in particular that:

- The proposals are unlikely to affect investment by Shippers in additional sources of supply or demand-side reduction – the imposition of a very high cash-out price in extremely rare and unpredictable circumstances does not provide an appropriate incentive in the context of long-term supply and demand management
- The introduction of demand side reduction payments at a very high administered price may actually encourage the load best placed to avert an emergency to remain taking gas, thereby increasing the potential for an emergency to be declared

We note that Ofgem “would not expect to change our high level policy decisions unless material new information comes to light”. Despite our concerns, we do not therefore rehearse the arguments regarding the high level policy further. Our focus instead in this response is the implications for the Moffat exit point, viewed in the context of the existing arrangements for load reduction at Moffat in the event of a gas deficit emergency originating in Great Britain.

Existing arrangements for load reduction at Moffat

As you will be aware, in the case of a gas deficit emergency originating in Great Britain arrangements are in place for firm load shedding in the jurisdictions downstream of Moffat to be undertaken on a pro-rata basis to that effected in Great Britain. The load at Moffat in these circumstances would be reduced and thereby contribute on an equivalent basis with other

load connected to the NTS to the management of the emergency situation in Great Britain. We have reviewed Ofgem's proposals against this backdrop.

Proposed treatment of the Moffat exit point

We can find no reference in the consultation document or the impact assessment to the effect that the Moffat exit point should be treated differently under the proposed arrangements from any other NTS exit point where firm demand might be curtailed in emergency circumstances. However, on a close inspection of the proposed business rules¹ and the proposed Uniform Network Code drafting² we find that demand side reduction payments “will not be made to interconnector users”. There appears to be no corresponding adjustment to the proposed cash-out rules for Moffat shippers – if short they will be exposed to the administered £20/therm cash-out price. Further, any such cash-out payments would, via neutrality, contribute to funding demand side reduction payments for *other* NTS exit points, whilst no such payments would be made in respect of Moffat – a clear case of cross-subsidy.

We find it surprising that Moffat has been apparently singled out for special, arguably discriminatory, treatment in this way, and furthermore that no rationale or explanation has been provided. We would ask Ofgem to review its proposals in light of the issues highlighted above. As a guiding principle, we would suggest that if compensation payments for involuntary demand side reduction are going to be introduced, they should be applied equally at all exit points contributing to the management of the emergency situation, and this would obviously include Moffat. We appreciate that, in contrast to other exit points, there are no consumers actually located at Moffat, so further consideration would need to be given to the demand side reduction payment obligations of Shippers and Suppliers.

Please do not hesitate to contact me if you would like to discuss any aspect of this.

Yours sincerely,

Celine Hayes,
Manager – Transportation Projects

¹ Gas Security of Supply Significant Code Review, Business Rules, Published 31/07/2012, 4th bullet p2 and paragraph 1.8 p5

² Uniform Network Code – Transportation Principal Document Section Q, DRAFT: FOR GAS SCR PROPOSED FINAL DECISION, Paragraph 6.1(b)(ii)(3) [DR System Exit Point exclusions]