

Representation For. 0042
"Revision of the Emergency Cash-out Price"
Version 1.0

Date of Communication: 22/08/2005
External Contact: John Costa (Edf Energy Plc)
Slant: Comments
Strictly Confidential: No
Abstract

EDF Energy Response to Modification 0042

Revision of the Emergency Cash-out price

Date: 22nd August 2005

Dear Julian,

Thank you for giving EDF Energy the opportunity to respond to Network Code Modification Proposal 042 'Revision of the Emergency Cash-out price'

EDF Energy notes that E.On has raised this modification as Urgent as an alternative to Transco's Urgent modification 0044 on cashout arrangements for this winter. We believe this modification has some merits over and above current cashout arrangements in an emergency, and in relation to modification 044 and therefore offer our qualified support.

As we have mentioned in our responses to modification 0021 and 0044, we do not believe that the ideal level or type of cashout prices in an emergency has been properly identified. This is because, despite some of the work undertaken in the Cashout Review Working Group (CORWG) this year, and in previous years, it has not been proven from the analysis presented that one proposal is better than others raised recently in terms of setting the right levels of incentives to balance. For example, Ofgem has stated that 30 days average SAP as a cashout price in an emergency incentivises shippers to go short as it is likely to be a lower price than market prices in an emergency. However, we believe that many shippers, and more precisely offshore shippers will be incentivised to flow all or as much gas as they can onto the system to avert an emergency as they will not want only 30 days average SAP for their gas.

We believe that dual and penal cashout prices in an emergency are more likely to harm smaller shippers who do not have the means or commercial power to get back into balance and therefore, this can be seen as discriminatory. It may also act as a barrier to entry as the risk exposure is greater than a single cashout price.

Therefore, this modification is a far simpler and more effective proposal compared to Transco's 0044 as it is a neutral cashout price i.e. Shippers will be equally incentivised to flow gas onto the system and help avoid an emergency. The merits of a neutral cashout price in an emergency was one of the reasons why a single price was proposed at the start of Network Code in 1996 and why a better solution has never been developed or adopted.

Also, the principle of this simple modification is easier to understand than mod 0044 and will help all market participants to fully evaluate its impact whilst minimising the incentives to manipulate cashout prices in an emergency.

If this modification is not implemented, we suggest that any future modification relating to emergency situations in gas should be thoroughly developed with the industry and tried and tested through scenario planning so that Transco and the industry can understand exactly what the impact and risks are to the industry. We believe that whilst the current cashout arrangements in an emergency may not be perfect they at least are clear and understandable, thereby minimising shippers risks and that of an emergency itself actually materialising and or being prolonged; we can not say the same regarding this proposal.

We hope our comments have been useful but please contact me if you need further clarification.

Regards

John Costa

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