

Dear Julian

Modification Proposal 042: Revision of the Emergency Cash-Out Price

SGN does not support the above modification proposal.

Whilst the proposal is straightforward and well defined we believe it has been raised primarily in response to concerns regarding Modification Proposal 0021 and the subsequent Modification Proposal 0044. The proposal was given urgent status on the 9th August and issued for consultation on the 10th August. Whilst we can understand the Proposer's concerns and reasons for raising this proposal, we do not believe this is an appropriate or efficient way to address concerns relating to emergency arrangements. We do not believe sufficient consideration has been given to issues or believe implementation is justified.

The Modification Proposal seeks to address concerns expressed in relation to Modification Proposals 0021 and 0044, that the current single emergency cash-out price of the 30 day average SAP doesn't provide sufficient incentive for Users to make suitable provisions to ensure there are sufficient supplies to meet demand or enter into arrangements for demand side response, thus helping to avoid / minimise a Gas Deficit Emergency (GDE). As an alternative, E.ON has proposed a single cash-out price of the "prevailing SAP" at the time the emergency is called. This would be the average of all buys and sells, taken from the OCM. It is suggested this strikes a suitable balance between the current 30 day average SAP and the marginal price proposed by Transco NTS in Modification Proposal 021 and 0044. We support E.ON's concerns that a GDE may be rapid and in such circumstances setting the emergency cash-out price at SMP Buy could mean that prices could be extreme. Where Users have insufficient time to react the commercial and operational consequences could be significant. As highlighted in our response to 0044 we do not believe these commercial and operational consequences have been fully thought through. That aside, we remain concerned that this proposal, whilst less extreme and preferable to 0044, could still create perverse incentives and have unintended consequences. We do not believe sufficient time has been given to consider these issues. Proposals could weaken a Transporter's ability to efficiently and effectively manage a potential or actual GDE and have implications for security of supply. We do not believe the proposal would necessarily better facilitate the relevant objectives compared to the status quo.

We do not believe it is appropriate to implement proposals of this nature without proper analysis and impact assessment. SGN believes it is preferable to allow the work of the demand side response working group to continue. In parallel it may be appropriate to reconvene CORWG to reconsider some of the wider issues and ensure a holistic approach is taken to resolving some of the concerns expressed in response for Modification Proposals 0021 and 0044. In this way the industry would have greater confidence that the most economic and efficient solution is developed and implemented in a timely manner, to the longer term benefit of security of supply and competition.

I hope these comments are useful.

Regards

Beverley Grubb
Scotia Gas Networks