



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

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Dear Julian

EDF Energy Response to UNC Modification Proposals 149 & 149A: "Gas Emergency Cash Out Arrangements: Keeping the On the Day Commodity Market open during a Gas Deficit Emergency."

EDF Energy welcomes the opportunity to respond to these modification proposals and do not support the implementation of either proposal. In terms of preference we believe that both proposals fail to meet the relevant objectives to the same extent.

EDF Energy normally supports market based mechanisms to support an efficient balancing market but a clear distinction must be made between a functioning market and one that has failed such as one that has entered an emergency. By calling a Network Gas Supply Emergency Gas Deficit Emergency (NGS(GD)E), the control of the market and balancing passes into the hands of the National Emergency Co-ordinator (NEC) who initiates command and control procedures and it is difficult to see how an efficient and effective financial market can operate alongside one that is being controlled by NEC and Secretary of state obligations. The market has failed, and so it appears inconsistent to re-open the market that has already failed in order to allow it to correct its own failings. We believe significant perversities and discrimination will be created between different types of shippers, both producer affiliated and supply affiliated if either of these modifications were to be implemented. We would also note that in an emergency the Over The Counter (OTC) market would remain open, and we would request clarity from Ofgem as to why they believe that this market is insufficient to attract additional sources of gas?

In particular we believe that:

- It would have been prudent for the DTI to publish the findings of their work before Ofgem embarked on identifying new measures to be developed and implemented by the industry.
- The NEC and HSE should have been fully consulted on these issues, and ultimately they should have identified whether the current arrangements were insufficient.
- Opening up the OCM during an emergency will create additional complexity and uncertainty for all parties involved and could further threaten

the security of the UK's supply. It is imperative that the rules and actions that need to be taken are transparent, clear and widely communicated during a NGS(GD)E

- Both proposals would discriminate in favour of Shippers that are long in an emergency and discriminate against Shippers who are short through no direct action of their own.
- Opening up the cashout arrangements so that they are set based on Shipper to Shipper trades opens the door to manipulation. We note that the current cashout arrangements are based on NGG trades to avoid the possibility of this manipulation.
- Given the increasing interaction with Europe for our gas supplies, it is essential that this is viewed as a European issue and so is addressed as such. It would appear that the best solution to attract merchant gas supplies would be to enter into a mutual agreement to ensure that gas is made available in an emergency. This work is best conducted by the Secretary Of State and the DTI.
- No compensation arrangements available for CCGTs being called to run at high gas prices in an emergency

In terms of proper governance and development of suitable proposals aimed at reviewing market operations in an emergency, EDF Energy does not agree with the process that Ofgem followed in leading these workgroups to develop these options. In particular we would note that these workgroups did not include all market participants including electricity parties who could have added a valuable insight into the interactions of an emergency on both markets. We believe Ofgem should wait until the outcome of the DTI seminar on Gas and Electricity Interactions task group work has concluded before introducing any more change in this area that may confuse and cloud the current arrangements and increase risks even further.

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

During a NGS(GD)E the most important factor should be the continued operation of the UK pipeline system, whether this is economic and efficient is of secondary importance. In order to secure the operation of the UK pipeline system, Users require clear and transparent rules and instructions from the NEC. Keeping the OCM open would distract from this and would be detrimental to the operation of the UK pipeline system, and so is inconsistent with SSC A11.1 (a).

As previously stated this proposal will discriminate in favour of Shippers who are long and discriminate against consumers and their Shippers who were short. This is not beneficial to competition and so is inconsistent with SSC A11.1 (d). We would further note that during an emergency most Shippers will be concerned with taking all possible actions to mitigate the emergency and secure gas supplies for their domestic customers, and not whether they are gaining market share.

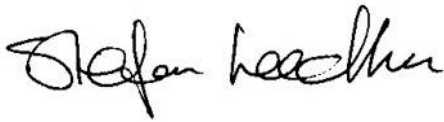
## **3. The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation.**

By entering into an emergency it is clear that security of supply has already been compromised, along with the operation of the Total System. Both proposals would create additional complexity which would distract from Shippers' ability to comply with NEC instructions and so compromise the security of supply and operation of the Total System.

**4. The implications for Transporters and each Transporter of implementing the modification Proposal.**

During a NGS(GD)E the role of the Transporter as residual balancer is removed and the NEC takes control of the UK system. There are therefore no implications for Transporters as they are no longer active. The implications for the NEC are that it creates additional complexity and uncertainty as they have no control over merchant gas supplies. This could further compromise their actions and threaten the UK's security of supply.

Yours sincerely

A handwritten signature in black ink that reads "Stefan Leedham".

Stefan Leedham  
Gas Market Analyst  
Energy Regulation, Energy Branch