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Dear John,

Re: UNC Modification Proposal 0260 - Revision of the Post-emergency Claims Arrangements

E.ON UK does **not support** implementation of UNC Modification Proposal 0260.

Although this proposal, if implemented, may enhance clarity of the UNC emergency claims process, we believe that on balance, the potential adverse effects of this proposal on Shippers in the event of a rapidly developing emergency outweigh any benefits that might accrue from greater clarity of the process. In short this proposal replicates many of the adverse affects that might have been seen with the application if dynamic cash-out prices proposed under UNC 0149.

A key UNC change proposed by this Modification Proposal relates to how valid claims arising from the claims process will be paid for by Shippers. Under the current arrangements, the cost of any such claims is socialised amongst all Shippers. However, Modification Proposal 0260 would change this rule, by first targeting the cost of the emergency claims at short shippers (to the extent of their daily imbalance) and only when this is exhausted, on all Shippers. Although this approach may, in theory, provide an additional (but superfluous) commercial balancing incentive for Shippers, in practice it ignores a Shipper's ability to actually respond and balance properly in an emergency which develops very rapidly; caused, for example, by the sudden failure of a gas network entry terminal due to a terrorist attack (hereafter referred to as a 'rapid emergency'). A 'rapid emergency' could be defined as one

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in which emergency procedures have been invoked without National Grid having the opportunity to first declare a Gas Balancing Alert (GBA).

In a so-called 'rapid emergency', directly affected shippers will not only have imbalance exposures under the cash-out arrangements, but will also have to fund all valid claims made pursuant to the emergency claims process to the extent of their daily imbalance. All this will achieve is in an arbitrary re-allocation of wealth between market participants, which could easily result in business failure even for relatively large Shippers. This would clearly be detrimental to competition once normal market operations are restored.

In light of this fundamental problem with the proposal, these proposed arrangements would not, in our view, be better than the current UNC rules under rapid emergency conditions. As such, we do not believe that this proposal better facilitates achievement of the relevant objectives as described in the transporter's licence.

Overall, we see this proposal as a piecemeal approach to the difficult issue of the interaction between gas emergencies and commercial arrangements. As Shippers and generators have repeatedly called for, an all-encompassing review must take place, involving at the very least, key parties who have had limited participation in the debate to date, such as the Health and Safety Executive (HSE), the Department of Energy and Climate Change (DECC), E3C Committee and the National Emergency Co-ordinator (NEC). Although, Ofgem has previously recognised the benefit in undertaking such a review, we are disappointed by the fact that both Ofgem and National Grid (NG) still seem to believe that market rule changes alone will somehow ensure the integrity of the gas emergency arrangements. Far from improving the arrangements we think that this proposal will simply add yet another layer of unnecessary complexity to an already flawed process. On this occasion rather than proposing an alternative to seek to mitigate the worst aspects of this proposal (as we did in relation to UNC 0149), we have taken the view that because this proposal is fundamentally flawed, should it ever be applied in anger, more workable and acceptable retrospective rules would inevitably have to supersede it. Therefore we trust that the added risk from this proposal will not materialise.

It is disappointing that we have been forced to come to such a conclusion as we would have very much like to have participated in wider discussions with the above mentioned organisations to establish more robust and 'joined-up' commercial arrangements that could be expected to work in the context of "command and control" arrangements that will necessarily prevail in an emergency.



We would urge Ofgem to reject this proposal and to facilitate a wider review of the gas emergency arrangements. We think such a review should encompass all the following issues:

- (a) How best to ensure non-UK price sensitive gas is delivered during a gas emergency.
- (b) Who is best placed to procure that gas, given normal market conditions no longer apply?
- (c) Should NG's (or the NEC's) role extend beyond that of the safe management of the system and involve procuring gas for 'UK plc' (e.g. through NG placing of locational bids on the on-the-day commodity market)?
- (d) A consideration of the imbalance risks faced by shippers in an emergency, including the risk of business failure if balancing costs rise excessive and shippers are exposed to 'unmanageable' risks (e.g. in the case of a major entry terminal failure).
- (e) In extreme circumstances might purchases of price sensitive gas have to be underwritten by government or some other collective insurance mechanism?
- (f) An assessment of the effectiveness and interaction of the various 'incentive mechanisms' (such as the Emergency Curtailment Quantity (ECQ)) which at the time were intended to reduce the chances of an emergency happening in the first place (e.g. by encouraging a commercial demand side response).

Yours sincerely,

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