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Response to UNC Modification Proposal 0021 Revision of the Emergency Cash-out arrangements

Dear Tim

E.ON UK does not support this proposal. We accept that appropriate incentives need to be in place in to ensure Users make suitable provisions to avoid entering into an emergency situation but we are not convinced that this proposal best meets these objectives. The industry has previously agreed the importance of having a neutral price when the market is effectively 'broken', we share this view and we do not consider that the changes proposed support it but in fact create unmanageable risk for Users, who are forced into a short position, through no fault of their own.

With regards to the EIV, the prevailing market price, prior to going into an emergency will be such that Users will be incentivised to interrupt customers, rather than pay the market price. Under these arrangements, the consumer is likely to be given more notification than if they were interrupted under an emergency situation and will almost certainly gain financially from such shipper interruption. We consider that these provisions are sufficient to ensure shippers act appropriately and we cannot envisage a situation where shippers would purposefully act in such a way to bring forward an emergency. The OCM price will provide where all users will be incentivised to bring any 'spare' gas onto the system.

There are inconsistencies with this proposal and current wording of Section Q of the UNC. Section 3.2.2 states that in a GDE, Transco NTS will not take any Market Balancing Actions, and yet the EIV section of the proposal states that an EIV would be treated as a Market Balancing Action. Whilst the revised legal text does go towards addressing this, it seems that some inconsistency remains and Section Q as a whole needs closer inspection as part of a wider scoping review of emergency arrangements. Revising legal text the day before responses are due and the general lack of clarity in the EIV proposal signifies the modification is not sufficiently developed for implementation.

The issue of the interconnector reversing flows, once 30 day average SAP has been reached, has been considered as an argument for a penal cash out buy price, set at the prevailing SMB buy. We agree that this is a matter which ought to be addressed but the changes proposed in this modification do not necessarily provide the correct mechanisms with which to properly address the issue. We would point towards some of the potential solutions provided in the Cashout Review Working Group (CORWG) (Meeting 06 minutes) where Transco is able to prevent reverse flow in Stage 3 of an emergency, or aligning prices with those on the continent. The work undertaken in the CORWG, with regards to gas emergency arrangements, appears to have been cut short and these and possibly many more potential solutions have not had the chance to be given due consideration.

Whilst we sympathise with concerns that something needs to be done prior to this coming winter, with a potentially increased likelihood of an emergency, we feel that the arrangements put forward in this proposal might have been more clearly presented and discussed in an open forum without being presented with an urgent modification proposal which would have greatly benefited from development within an industry forum.

Please do not hesitate to contact me if you wish to discuss any of the above.

Yours sincerely

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