

30 March 2006

Julian Majdanski  
UNC Modifications Secretary  
Joint Office of Gas Transporters  
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Dear Julian

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NO. 2706333

**RE: Code Modification Proposal 0042 – Revision of the Emergency Cash-out price**

Thank you for the opportunity to respond to the above modification proposal.

Gaz de France ESS gives qualified support to this proposal.

Every prudent action should be taken to avoid a Gas Deficit Emergency from occurring. Supply-side response and appropriate pricing arrangements are important to this but also critical to this debate is demand side response, which should be considered as an integral part of pre-emergency arrangements. It is important to stress that all commercial demand side options should be fully developed by industry participants and accepted by Gas Transporters ahead of a potentially tight supply/demand situation. Demand side offerings should be exhausted before emergency conditions are declared and hence the requirement to change the current emergency cash-out prices became less necessary.

The use of the prevailing System Average Price on the day is appropriate to provide a strong incentive for Users to balance in the event of an emergency and should help to prevent an escalation of a Gas Deficit Emergency. The daily System Average Price best values the market price for gas in the short term by reflecting shorts and longs in the supply demand balance. An effective incentive to balance is achieved with this approach without exposing Users to the unquantifiable risk of SMP buy price which could be set by a single extreme outlying offer with small volume and high price (as recently experienced in the electricity market). The daily System Average Price is a widely recognised published indicator; which adds to clarity.

We agree with the proposer; that this proposed modification would better facilitate GT Licence standard conditions A11.1(d) ensuring effective competition between shippers and suppliers and (e) protecting domestic customers.

If you have any queries regarding this response please contact me on 0113 3062104.

Yours sincerely



**Phil Broom**  
**Regulatory Affairs Analyst**  
**Gaz de France ESS**