



UNC Modification Proposal 0042: Remission of the Emergency Cash-out price

I refer to the above urgent modification proposal raised by E.ON UK. It proposes that the current emergency cash-out price of the average of 30 days' SAP to the setting it to SAP on the day that a gas deficit emergency (GDE) is declared with the suspension of the OCM.

Shell Gas Direct (SGD) supports this proposal with some, limited reservations. SGD has a number of concerns regarding the processes which have been followed resulting in three urgent proposals being raised on emergency cash-out in the run up to what Ofgem and National Grid have suggested could be a tight winter if very cold. We outline these concerns in more detail in our response to Transco NTS's proposal 0044 on emergency cash out.

SGD agrees with E.ON that pragmatic options should be pursued to ensure efficiency in the industry and to ensure that efforts can be focused on realistic approaches to improving demand side response. We did not support UNC0021 but in our response suggested a proposal focussed just on the cash-out price could have benefits. For this reason, we welcome E.ON's initiative.

We should note that we do not consider, nor have we seen any evidence to support, the contention that shippers' activities are based on expectations of emergencies being declared. Instead, shippers¹ will want to ensure that they are not exposed to high cash-out prices which can occur with no risk of an emergency and, if supplies are tight, we would expect that all shippers are well aware of this given the current high forward prices for the upcoming winter. We are also in accordance with E.ON's view that GDEs may be rapid and not give shippers sufficient time to react. Setting a penal cash-out price in these circumstances only reduces the commercial attractiveness of entering or remaining in the gas supply market. Any negative impact of such a proposal will be picked up by consumers through higher prices and/or reduced competition.

We consider that E.ON may have underplayed the potential for its proposal to address concerns regarding Interconnector flows. SGD has not considered that the emergency cash out prices needed review except potentially in respect of ensuring continuing supply from the continent. While it is the case that cold temperatures and high prices can coincide in Britain and on the continent, the current emergency cash out price is likely to be below the market price on the continent in cold conditions. This means that even if gas is available, it may not be financially attractive to export it to Britain. The cooperation of the interconnector operator can not do anything to ensure that gas arrives at the flange to be imported into Britain. A cash out price based on what would

¹ Throughout this response, references to shippers also includes suppliers who, of course, contract directly with consumers.

be expected to be market-reflective conditions before an emergency is declared is likely to encourage gas into Britain.

SGD supports implementation of this proposal. It addresses the perceived problems with the cash out prices set out in Ofgem's decision to UNC0021. It furthers the relevant objectives of the Uniform Network Code by ensuring that effective competition between shippers and relevant suppliers by appropriate and pragmatic approaches are adopted to emergency cash out arrangements.

Yours sincerely

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