



Mr. Julian Majdanski
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26 June 2007

Dear Julian,

Re: Modification Proposal 0149/149A: “Gas emergency Cashout Arrangements: Keeping the OCM open during a gas deficit emergency”

The Association of Electricity Producers welcomes the opportunity to comment on these modification proposals. We do not support either proposal but consider that 149A would be a better alternative should one of these proposals be implemented.

The Association is concerned that there are numerous initiatives concerning security of supply in gas and electricity markets yet apparently limited consideration of the interactions of the two markets during an emergency. In this regard we note that the DTI gas and electricity interactions task group is due to meet on 27th June, and we will participate in that group. We would therefore be cautious of any modification proposal that sought to change the commercial framework prior to the interactions of the two markets being fully considered. Of particular concern is the absence of any compensation mechanism for gas fired stations subject to directions to generate under emergency conditions which may have to purchase gas at extremely high prices. At least fixing the cashout prices at the start of an emergency would provide some certainty over this as opposed to prices being unpredictable day on day.

The Association would generally support the use of market based mechanisms to mitigate financial exposures and facilitate shipper balancing. However we are sceptical that market processes will work effectively alongside command and control at stage 2/3 of an emergency, and may result in unintended consequences. For an emergency to have been declared the market must by definition have failed, therefore keeping the market open may do little in providing additional physical gas to the market, may provide opportunities for gaming and may lead to some shippers being commercially disadvantaged or even facing bankruptcy through no fault of their own.

The Association would therefore urge a wider consideration of the consequences of these proposals and potentially consideration of other alternatives given that the priority under

emergency circumstances is safe network operation, and this should be the focus of shipper activities (eg interrupting customers, providing accurate information to the NEC) rather than management of the commercial impact.

Please do not hesitate to contact me in case of any query.

Yours sincerely

Julie Cox
Association of Electricity Producers