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Dear Julian

Re: UNC Modification Proposals 149/149A

Thank you for your invitation seeking representation with respect to the above Modification Proposals. Our response focuses on the extent to which the implementation of the proposed modification would better facilitate the relevant objectives.

We agree that keeping the On the Day Commodity Market (OCM) open during a Stage 2 (and higher) of a Network Gas Supply Emergency Gas Deficit Emergency (NGS(GD)E) will provide an additional route to market and increase the options shippers have to trade.

The OCM is a fully cleared market and hence provides confidence to those trading on the platform, which is particularly important during times of system stress. The fact that National Grid will not be using the market during an emergency should not remove the facility for shippers. There is no requirement for other market places to close during a NGS(GD)E, which implies that closing the OCM is somewhat of an anomaly.

APX considers that a mechanism for determining a dynamic cash-out price during a NGS(GD)E is likely to maintain more appropriate incentives on shippers to balance throughout the duration of the emergency, particularly an emergency that lasts for several days.

However, we have some concerns that the approach to setting cash-out prices in modification proposal 149 may discourage shippers from trading on the OCM. For example, if the OCM offer prices are higher than the current prevailing cash-out price, then shippers would be incentivised not to trade, so that they were cashed out at the lower price. Additionally, having the cash-out prices based on a marginal action opens up the potential for prices to be more easily gamed, or have prices set on very small unrepresentative trades.

Modification proposal 149A offers the benefit of keeping the OCM open, (which in itself, is an incremental improvement to the current arrangements), but it does not have the dis-benefit of the price setting proposals of modification 149. Hence we believe that modification proposal 149A better facilitates the relevant objectives.

Implementation

APX would need to make some changes to its price calculation software if modification 149 were to be approved, however the changes are relatively straightforward and could be made within 14 days. No software change would be required to our systems if 149A were to be approved.

If you have any queries with regards to this response, please do not hesitate to contact me.

Yours sincerely

Ian Moss (by e-mail)
UK Regulation Manager