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Pamela Taylor
Associate Partner, European Wholesale Markets
Ofgem

Dominique Woitrin
Director, Technical Operation of the Market
CREG

Robert Spencer
Head of Unit, Gas Markets and Regulation
NMa

Dear Pamela, Dominique and Robert,

EDF Trading's response to Ofgem's, CREG's and NMa's 'Call for evidence on the use of the gas interconnectors on Great Britain's borders and on possible barriers to trade'

We welcome the opportunity to provide our input on the extent that the UK's gas interconnectors are used efficiently. We recognise that careful analysis of the efficiency of flows is an important prerequisite to form a view on what measures are appropriate to enhance market integration. We therefore stress that it is important for the analysis to take into account the realities of the market. Please find our comments on the actual analysis itself and our views on the questions raised in the Call for evidence below.

IUK

Based on our experience as a shipper on the IUK, we would expect any analysis of flows across the IUK to show results that are more efficient than what the results of Ofgem's/CREG's/NMa's initial study suggests.

Our view is therefore that further analysis is required for the IUK, taking into account the realities of the market. Flows should be plotted against the appropriate price differential, Bacton Beach to ZEE, fuel costs need to be taken into consideration, and planned maintenance periods should be

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removed from the data set. We note that this was done by IUK in the analysis they presented at the Stakeholder Workshop on 21 November.

Reasons for inefficiencies

Overall, we agree with the reasons that Ofgem/CREG/NMa list in the Call for evidence as possible explanatory factors for inefficient flows, in particular the availability of entry and exit capacity on top of actual capacity on the interconnector, differing levels of liquidity on the hubs given that the NBP is the only truly liquid hub, and, last, as pointed out above, other costs that have not been taken into account in the analysis, such as fuel costs.

Contrary to what is stated in the Call for evidence, we would suggest that these factors are sufficient to explain inefficiencies. This is primarily because we believe that the efficiency analysis that has been carried out overstates existing inefficiencies.

We have noted these points in our responses to the questions raised in the Call for evidence below, broken down by individual question.

We have also provided our views on measures that could be taken to improve the efficiency of flows, as part of these answers. In general, our view is that CAM and CMP should be implemented first before it is possible to assess whether implicit allocation of capacity will bring any benefits.

We appreciate the opportunity to provide our input. Please do not hesitate to contact us if we can clarify or expand further on any of the points we have raised.

Yours sincerely,



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Responses to the questions raised by the Call for evidence**What are your views on the economic efficiency of cross-border gas flows between GB, Belgium and the Netherlands? How important do you consider this review into cross-border flows to be?**

We consider that the review is important in order to form a view on what measures are appropriate to enhance market integration. We therefore stress that it is important that the analysis is carried out appropriately and that the analysis takes into account the realities of the market.

We would expect an analysis of flows across the IUK to be more efficient than what Ofgem's/CREG's/NMa's initial analysis suggests. We would therefore suggest that the analysis is redone, removing planned maintenance periods and using appropriate price differentials. Flows should be plotted against the appropriate price differential, Bacton Beach to ZEE and consideration needs to be given to fuel costs. We would also suggest that you remove planned maintenance periods from the data set. We note that this was done by IUK in the analysis they presented at the Stakeholder Workshop on 21 November.

Similarly, we would suggest that the data set is cleaned for the analysis that relates to the BBL, e.g. removing planned maintenance periods.

What is your experience with cross-border gas trading between GB, the Netherlands and Belgium? What, if any, are the key barriers to economically efficient gas trades happening across our borders?

EDF Trading is a shipper on both the IUK and the BBL.

We agree with the reasons that Ofgem/CREG/NMa list in the Call for evidence as possible explanatory factors for inefficient flows, in particular the availability of entry and exit capacity on top of actual capacity on the interconnector, differing levels of liquidity on the hubs given that the NBP is the only truly liquid hub, and, last, as pointed out above, other costs that have not been taken into account in the analysis, such as fuel costs.

Contrary to what is stated in the Call for evidence, we would suggest that these factors are sufficient to explain inefficiencies. This is primarily in light of that we believe that the efficiency analysis that has been carried out overstates the inefficiencies.

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How could current market arrangements be improved so that they better promote the objectives of promoting a competitive internal market, eliminating restrictions on cross-border trade in gas and enhancing the integration of national markets as well as security of supply?

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Should we try to proceed with minimum necessary changes or should the regulators be looking more holistically at a wider review of arrangements that may present barriers? Should we be considering piloting some deeper regional integration or joining initiatives that are already going on in Europe?

Our view is that CAM and CMP will improve current market arrangements in line with the objectives listed in the question. Key features of CAM and CMP – in particular explicit auctions of a minimum volume of capacity dedicated to short term capacity, bundled products and mechanisms to free up unused short term capacity – need to be implemented as a first step before it is possible to assess whether other additional measures, notably implicit allocation of capacity, would bring any benefits.

At the same time, this does not prevent piloting implicit allocation – as long as such pilot projects are carefully designed and implemented only where the following minimum set of conditions are already met:

- Sufficient liquidity on the relevant hubs
- Availability of bundled cross-border capacity (and no technical congestion as has been the case for the French “market coupling” experiment)
- Careful design (dedicated volume, type of products, OTC vs. exchange, continuous trading vs. discrete auctions)

What process may help us to achieve the best outcome? What role should regulators, market parties and TSOs have in this process? How would it interact with pan-European policy initiatives?

Priority should be placed on implementing and assessing the results of CAM and CMP. Ofgem/CREG/NMa should continue to interact with stakeholders on a regional level and coordinate any changes with pan-European initiatives, notably CAM and CMP, which should increase the efficiency of flows and improve market integration when these measures are implemented fully. Pilot projects need to be considered in light of that backdrop.