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Dear Sonia

UNC Modification Proposal 006

EDF Trading (EDFT) wishes to submit the following in response to your request for views in the Open Letter dated 24 October.

EDFT supports any initiatives that enhance market transparency that improve market functioning. In the case of this proposal, the provision of offshore flow information will go far in opening up the supply side of the UK gas industry. Historically, offshore flows have been the guarded domain of offshore supply companies meaning that the downstream market has reacted to 'after the event' selective reporting and rumour. There is no question that this has fuelled market uncertainty, leading to excessive volatility and a growing trend towards shorter term trading. This modification proposal seeks to provide all market participants with a better understanding of offshore operations and the true physical balance of the overall gas network close to real time.

In recent months the efforts made by the DTI, Ofgem and UKOOA have gone some way to address the information imbalance. The voluntary information initiative has provided the downstream market with some insight into offshore operations. Nevertheless, we suggest that these improvements are negligible. The North-South Flow information is provided at an aggregate level and at some time after the flows have occurred i.e. up to 15 minutes after the hour during which the gas flowed. This information is of minimal use to the traded market because;

- a) The aggregation of the flows disguises what is happening at particular input locations. This, in turn, prevents the market from taking informed views as to why flows have changed and the likely effect on the physical balance for the remainder of the trading period.
- b) The information is not close to real time and as a result, market players can only respond to real time 'rumours' or after the event aggregated information. In both instances this is undesirable and does little to assuage fears of trading on sentimentality and/or inaccurate perceptions of the true physical state of the system.

For these reasons, EDFT is of the view that the North-South information initiative is of limited use and is not relied on during the trading day. It serves some purpose in reflecting on the day, but it would be fair to say that we do not use the information as a basis for developing trading strategy.

We are grateful to National Grid for providing the annexed data, but are unable to comment on the question posed by Ofgem relating to the incremental value of this data. EDFT is unable to quantify the incremental value of providing close to real time data above that attained currently, as the current data is only used sporadically and cannot be compared meaningfully with that proposed under Mod Proposal

006. Close to real time, entry point specific data would allow market participants to form a far more accurate picture of the actual state of the system. In conjunction with other data flows (e.g. linepack and demand figures) as well as the normal market commentaries and communications, the impact of flow changes can be better understood and more confidently acted upon.

EDFT strongly refutes the argument that the data flows under Mod Proposal 006 may “spook” the market and generate panic trading. The data provided under this proposal would be used as a single, but important component of a larger market intelligence framework. Erroneous or inexplicable movements in data would be identified and tested against other data flows and participants would ascribe qualitative assessments to the quantitative outputs.

EDFT strongly supports the implementation of this proposal. We believe the benefits to the UK gas market would far outweigh any implementation costs. Mod Proposal 006 would reduce market volatility and increase overall liquidity in both short and longer term traded markets. At a time when security of supply is high on the political agenda we suggest that system security would be enhanced by this demystification of the offshore operations as downstream players would be more able to understand the overall physical situation and react in a timely and efficient manner.

Please do not hesitate to get in touch if you have any further questions.

Yours sincerely

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