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Dear Abid

Potential Significant Code Reviews (SCRs)

We agree that Ofgem has a role to play in leading and coordinating code changes in parallel with the work of the Smart Metering Implementation Programme and that the new SCR process provides an appropriate¹ framework for this. We would also support a review of gas security of supply provided this was wider in scope than the SCR envisaged by Ofgem. In regard to electricity cash-out we think that an SCR is unnecessary intervention at this time.

Smart metering

Given the significant impact that the roll-out of smart meter will have on consumers, its importance to helping build a low carbon economy and cross codes implications we consider an SCR is appropriate vehicle to progress coordinated change. Nevertheless Ofgem must be careful not to draw the scope of its review too widely as it might hinder the progress of legitimate changes to industry codes put forward by market participants, on issue that are in fact peripheral to smart metering.

Gas Security of Supply

It is disappointing that Ofgem continue to believe that there is a case for dynamic cash-out price at stage 2 of a gas emergency even-though normal market arrangements will have ceased to apply at that point. The Gas Forum and industry participants have for some time advocated a more joined up-approach to gas emergency arrangements rather than consideration of market mechanisms in isolation. We fear that that too narrow an SCR in this area will result in further UNC changes that purport to incentivise particular advantageous shipper behaviours, but in reality introduce additional risks and complexity which cannot be efficiently managed by those parties. At worst, in an emergency shippers may be so focused on seeking mitigate these commercial risks

¹ A more general Ofgem review might work equally as well. One would expect parties to bring forward the necessary changes to codes following such a review without the need for an SCR direction.

that cooperation with the Emergency Co-ordinator in ensuring the safety of the system could be compromised.

We would however, welcome a review of the emergency arrangements if it were wider in scope and included active involvement of the Department of Energy and Climate Change, the Health and Safety Executive the E3C Committee and the National Emergency Co-ordinator in any discussions. It might then be possible to design arrangements that are robust but also apply appropriate incentives on parties to procure adequate flexibility (including demand side response) to help avoid an emergency in the first place. We believe this wider review should consider the following:

- (a) How best to ensure non-UKCS price sensitive gas is delivered in a gas emergency?
- (b) Who is best placed to procure that gas, given normal market conditions have ceased to apply?
- (c) Should National Grid's (or the National Emergency Co-ordinator's) role be extend beyond that of the safe management of the system and involve procuring gas for 'UK plc' (e.g. through National Grid placing locational bids on the on-the-day commodity market) during the emergency?
- (d) A consideration of the imbalance risks faced by shippers in an emergency, including the risk of business failure if balancing costs rise excessively and shippers are exposed to 'unmanageable' risks (e.g. in the case of a major entry terminal failure).
- (e) In extreme circumstances might purchases of price sensitive gas have to be underwritten by Government or some other collective insurance scheme?
- (f) An assessment of the effectiveness and interaction of the various market mechanisms such as the Emergency Curtailment Quantity (ECQ) - designed to encourage commercial demand side response and the UNC 260 post emergency claims process in helping to avoid an emergency happen in the first place.

In regard to reforming the gas cash-out arrangements outside an emergency, the arrangements are working well so we do not see there is any need for a SCR review of this area at the current time. In contrast to the electricity cash-out arrangements which have been subject to continuous change the gas arrangements have remained stable since 2001. During this period shipper balancing performance has progressively improved and we consider the stability of these arrangements has helped to contribute to market confidence. We think that Ofgem's resources should just be concentrated on developing a joined-up approach to managing both the commercial and operational aspects of managing a potential gas emergency rather than reviewing gas cash-out more generally.

Electricity cash-out

We do not believe there is merit in Ofgem conducting a strategic code review of electricity cash-out at this time, although a wider review of electricity trading arrangements to support the Government's Electricity Market Review may be appropriate in due course.

Since the start of NETA in 2001 electricity cash-out has been subject to a number Ofgem reviews and various modifications have been approved. Many of these changes arose indirectly from Ofgem interventions or reviews and in some cases have resulted in quite marked changes in policy direction. For example following discussion with Ofgem National Grid put forward P194 ('near marginal' cash-out prices) ostensibly to improve incentives to balance and enhance security

of supply; although most parties were content with the prevailing regime. Then followed P205 to correct the anticipate extreme price volatility of P194 and the debate shifted back towards making the cash-out price more benign again. If P194 had not been implemented we do not believe the subsequent proposals leading to P217A would have then followed. This perhaps calls into doubt the value of previous interventions. In this context the prospect of a further Ofgem intervention which will most likely to lead to yet more changes to the electricity cash-out regime seems inappropriate. If a post-implementation review of P217A, is all that is required, a BSC issues group could be established to do this using data made available by Elexon and National Grid. Then industry parties could bring forward proposals if they thought deficiencies remained in the current regime.

Transmission Charging Arrangements

We note that Ofgem has launched a review of gas and electricity transmission charging arrangements ("Project Transmit") prior to the new SCR process being implemented. To avoid duplication of work Ofgem may wish to consider whether to re-classify this review as an SCR from the start of the new SCR regime. At this time users will of course be free to put forward modifications to charging methodologies under the normal industry code modification procedures.

It is also important to remember that there is a Transmission Charging Methodology Forum (TCMF) for gas and one for electricity that already consider charging methodologies in a holistic way. National Grid manages these well and there is no reason why these fora shouldn't ordinarily provide the main means for progressing necessary changes going forward. Any Ofgem review should seek to use the expertise of these industry fora.

We trust you find these comments helpful. If you have any questions regarding this response please feel free to give me a call.

Yours sincerely

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