



Industry participants, customers
and other interested parties

*Promoting choice and value for all
gas and electricity customers*

Contact: Anna Barker
Direct Dial: 020 7901 7186
Email: Anna.Barker@ofgem.gov.uk

Date: 7 July 2011

Dear Sir/Madam,

Update on Gas Security of Supply Significant Code Review

Overview

On 11 January 2011, we launched the Gas Security of Supply Significant Code Review (Gas SCR).¹ In response to the initial consultation, several stakeholders expressed concerns about the pace of the Gas SCR process given the complexity of the issues being investigated. We have decided that we will now publish our draft decision in autumn 2011 to allow more time to fully develop our proposals and assess their impacts on market participants and customers.

Background

For a number of years we have expressed concerns with the arrangements for delivering security of gas supply in Great Britain. In January 2011, Ofgem published an initial consultation document, setting out our initial views and regulatory options for enhancing gas security of supply. These options include:

- cash-out reform to sharpen price signals during an emergency
- compensation at the value of lost load for firm customers that have their gas supply interrupted as a result of a gas deficit emergency
- enhanced obligations on market participants to ensure gas security of supply.

Since then, a number of stakeholder events have been held to discuss the reform options. While welcoming the Gas SCR, some stakeholders expressed concerns that the original timetable would not provide sufficient time to consider and develop the options under consideration. A number of respondents suggested further developments to our initial reform options and also highlighted alternative options, such as enhanced demand side response facilitation. Further, the tight timing under the initial timetable for the Gas SCR would not have allowed the industry time to respond fully to reforms in time for winter 2011/12.

As a response to stakeholder feedback and given the importance of this review and its

¹ The Launch Statement is available here:
<http://www.ofgem.gov.uk/Markets/WhlMkts/CompanEff/GasSCR/Documents1/Launch%20Statement%20-%20Gas%20Security%20of%20Supply%20Significant%20Code%20Review.pdf>

The Initial Consultation document is available here:
<http://www.ofgem.gov.uk/Markets/WhlMkts/CompanEff/GasSCR/Documents1/Initial%20Consultation%20-%20Gas%20Security%20of%20Supply%20Significant%20Code%20Review.pdf>

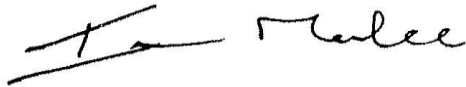
potential market implications, we have decided to revise the timetable to allow us to further consider and analyse the implications of the options in full.

Next steps

We are now planning to publish the draft decision in autumn 2011. This will be followed by further stakeholder workshops and seminars before coming to a final decision. Our indicative timing for publishing the final decision is spring 2012.²

If you have any questions or comments on the content of this letter please contact Anna Barker in the first instance (Anna.Barker@ofgem.gov.uk).

Yours faithfully

A handwritten signature in black ink, appearing to read 'Ian Marlee', with a horizontal line drawn underneath the signature.

Ian Marlee
Partner, GB Markets

² In our guidance on the launch and conduct of SCRs, published in August 2010, we indicated that, in the event of any slippage to the original timetable for a SCR, we would publish our reasons why the original indicative timetable has slipped and a revised indicative timetable. The guidance is available at: http://www.ofgem.gov.uk/Licensing/IndCodes/Governance/Documents1/Guidance_initiating%20and%20conducting%20SCRs_final%20draft_110810.pdf.