



Grampian house  
200 Dunkeld Road  
Perth  
PH2 3GH

**Andrew MacFaul**  
Consultation Co-ordinator  
Ofgem  
9 Millbank  
London  
SW1P 3GE

Email:  
Jeff.Chandler@sse.com

Date: 30<sup>th</sup> Jan 2011

Dear Andrew

### **Gas Security of Supply Significant Code Review Draft Policy Decision Response**

Thank you for providing SSE with the opportunity to comment on the above consultation. Please find our detailed responses to the specific questions below.

SSE's core purpose is to provide the energy people need in a reliable and sustainable way. Given that the UK will become more import dependent or that the UK could suffer multiple infrastructure failure, then SSE are in agreement with taking measures to improve security of supply.

SSE believe that the best means of meeting the objectives of this review is through the operation of the market which places incentives on Shippers to balance. Shippers will manage the risk of dynamic cash out price through a variety of means including: contracting for physical supply; storage; demand side response and NBP contracts. However, the introduction of a dynamic cash out price will only achieve this objective if the market is allowed to fully function and deliver i.e. no new obligations are placed upon shippers or suppliers; the current storage monitors are removed; and cashout is set at a level that reflects both the customer and societal cost of disconnection, to provide a sharp price signal.

#### **Cashout**

SSE agree that unfreezing the cash out price during a GDE and capping cash out at £20/therm will give appropriate signals to the market to improve security of supply.

However, there may be adverse consequences to market liquidity, Shipper solvency and credit requirements that may deter new entrants and increase operational costs. For this reason, SSE consider it important that the SCR on cashout and the interventions are developed on the same timescale. Failure to do this may result in unintended consequences and a sub optimal solution for the industry.

### **Compensation**

However, It is not clear why Ofgem believes that a customer would face a different cost level if interrupted for network or energy reasons. If compensation is deemed to be necessary, SSE believe that the compensation methodology already used by GDNs is appropriate and should be used as a first choice. For domestic and SME customers these arrangements are set out in the Gas (Standards of Performance) Regulations 2008. These regulations limit any individual customer payment to £1,000 for any gas outage greater than 24 hours and also detail a number of exemptions. There is a specific exemption covering situations where more than 30,000 customers are affected. Similar arrangements exist within the UNC for compensation for I&C customers. Rather than standard daily payments, the compensation increases proportionally with the capacity held at the individual supply point. The UNC also places aggregate annual limits on the amount of such compensation and also has exemptions for instances where force majeure has been declared.

SSE believe that if compensation is deemed to be necessary, the level of compensation paid to customers should be set at a level which will reimburse customers for the costs associated with their disconnection, not the wider societal costs. i.e. not at the cashout level.

SSE are very concerned that paying an equivalent compensation of £20 /th to all customers who have undergone involuntary Demand Side Interruption is not value reflective. Compensation should be differentiated based on customer type. In-addition, compensation of £20/th could bankrupt affected Suppliers if more compensation was to be paid out than was collected from short Shippers. If any shortfall in compensation from short Shippers was to be socialised to long or balanced Shippers this would create a disincentive to make adequate provisions to secure one's own portfolio. This is because the risk would be created that long Shippers will have to provide compensation on behalf of Shippers who did not make adequate provisions.

Therefore, SSE believe that the compensation mechanism must be limited in 2 respects:

1. long and balanced Shippers will not be held jointly and severally liable for compensation arising from short shippers.
2. compensation paid to interrupted customers by Suppliers will be capped at the sum collected from the short Shipper(s).

### **Further Interventions**

SSE acknowledge Ofgems' concern that even a high cash out price capped at £20 /therm might not encourage investment in Security of Supply, if the industry

participants placed a very low probability on the event or Shippers expect to become bankrupt. Therefore, some further intervention might be required provided it did not distort operation of the market.

SSE's preferred intervention is for a Demand Side Response (DSR) auction exercisable once a stage 2 emergency is declared. This would facilitate the interruption of DM customers in the most economically optimal order, thus reducing the severity of an emergency and increasing market efficiency. The benefit of a pre-planned auction is that it provides the network operator and customers with certainty which facilitates planning in advance of the emergency. With reliable contact lists, agreed prices and a target volume NGG and customers will know in advance of a tightening supply/demand situation what actions they are obliged to take, thus the UK will be better prepared to avoid an emergency.

DSR has the significant benefit over other interventions in that the cost will be much lower. This is because its costs are based on exercise only. All the other interventions require expensive investment (storage) & costs (contracts) that must be paid for every year regardless of whether they are used or not.

SSE does not believe that there is a need for additional storage at this time. This is reinforced by the current market which is signalling low volatility and spreads which creates a challenging operating environment for existing storage assets. Any future intervention must not distort the commercial storage market and must not discriminate against existing assets. Any intervention that did unfairly distort the market would damage the UK's reputation for competitive markets, breach the EU Regulation (EU) No 994/2010 article 8 and risk undermining future investment.

But if a storage intervention is forced on the industry, SSE has a strong preference for a non-targeted capacity payment mechanism. This will not discriminate between existing or new assets. The required volume of storage could be bid for in an auction and the successful assets would be compensated by the capacity payment mechanism. This would be in line with the Electricity Market Reforms and justified when considering that the gas flexibility will partially support the electricity market. The capacity mechanism payments could be collected from SO commodity charges and paid to storage operators. This will ensure the lowest cost and most economical solution of the possible storage interventions.

With regard to strategic storage, SSE questions if it can ever be implemented in such a way as to minimise unforeseen consequences on the commercial storage market. SSE is opposed to a storage obligation on either Shippers or Suppliers as this will depress investment returns on storage assets. Ultimately, storage revenues will collapse in the oversupplied market created by the storage obligation, whereby, breaching the EU Regulation. Similarly, SSE believe that guaranteed regulated returns for new storage will result in an undermining of the existing commercial storage market.

## **Summary**

SSE are supportive of a dynamic cashout capped at £20 /therm. But we are not supportive of the proposed compensation payment mechanism. Compensation should be based on the existing GDN Standards of Performance. If Ofgem persist with the draft decision proposals then compensation will need to be limited to the amount of funds collected from Short Shippers. SSE would be supportive of demand side response auctions exercisable once an emergency is declared. We believe these will form an effective set of tools to minimise the probability of a GDE from occurring. If a storage intervention was forced on the industry we would prefer a gas storage capacity payment mechanism. SSE does not believe that any of the other interventions described in Ofgem's draft decision document would prove to be effective in increasing security of supply.

We strongly urge Ofgem to postpone implementation until after Winter 2012/13, as we do not believe a full assessment of the options and their implementation can be carried out before then. In order to make an informed decision, it is imperative that Ofgem involves all relevant parties in the consultation process and considers all the consequences of any changes fully, including any impact that changes to the gas emergency arrangements could have in the electricity market and the implications for industry credit arrangements. In addition, it is important that sufficient time is allowed to make the necessary changes to support the new emergency regime including those associated with the safety cases.

## **CHAPTER 3: Level of security of supply**

***Question 1:** Are there any options for determining the level of gas supply security to be delivered by the market that we have not considered?*

SSE agrees that the UK meets the Security of Supply Standards defined in the EU Gas Security of Supply Regulation (Regulation (EU) No 994/2010). SSE's own assessment of these standards is that the UK will continue to meet the infrastructure standard until 2022 for peak day demand.

However, the UK will become more import dependent and if the UK does not have confidence in international traded markets or the UK is concerned about multiple infrastructure failure then further security of supply safeguards may be required. We note that the Regulation states that any higher standard must not distort competition or hamper the functioning of the internal market. SSE's view is that storage obligation interventions will distort and interfere with the gas market.

***Question 2:** Do you agree with our approach to setting the level of security of supply*

SSE believe the security of supply standard for gas should be no higher than that required for the gas network; i.e. 1:20 standard, otherwise there might be sufficient gas but it might not be possible to transport it to customers.

Using a value of lost load (VoLL) for setting cashout is one way of interpreting and incentivising compliance with the Regulation. Ofgem have stated this corresponds to

the willingness to accept payment for a seven day outage occurring once every 20 years. Assuming this occurred in winter, Ofgem have equated this to approximately £20 per therm for protected customers or a payment of £32/day based on consumption of 1.6 therms/day.

#### **CHAPTER 4: Cash-out reform**

**Question 1:** Do you agree that it is appropriate to retain the Post Emergency Claims (PEC) arrangements? If not please explain why.

PEC arrangements are required to compensate those suppliers that deliver gas to the system in excess of their off-takes where the cost of supplying this gas exceeds the price they would be paid through cash-out.

SSE believes that the PEC arrangements should remain in place. The Network Emergency Co-ordinator (NEC) would retain its ability to direct physical delivery of supply from GB sources of gas under these arrangements. This could mean shippers are forced to deliver gas that they consider to have greater value than the prevailing market/cash-out price.

This is because cash-out price paid to long shippers (the System Marginal Sell Price) would continue to be based on the System Average Price. The default price may be relatively low, particularly on day one of an emergency, as the volume of high priced on-the-day commodity market (OCM) trades could be relatively low and default prices are derived using the System Average Price.

**Question 2:** Do you agree with how we have estimated Value of Lost Load (VoLL) and the level of VoLL that we have used? Is there a case for using a higher VoLL to incentivise more discovery of the demand side?

There are many ways to establish the VOLL. Ofgem have used London Economics as an independent consultant to make an assessment and have made the report available. The Regulation (EU) No 994/2010 requires protected customers to be supplied for a peak 7 days during a 1:20 Winter. Therefore, to base cashout on this basis is one consistent approach. It should be acknowledged that the resultant VOLL is very much higher at £20 /therm than any previous cashout price and could bankrupt Shippers who were short during a GDE, due to this, SSE does not see the benefit in an even higher, uncapped cashout price.

**Question 3:** Is one day domestic VoLL an appropriate administrative price for any firm load interruptions?

The EU Regulation only requires protected customers to have secure supplies. If only protected demand is to be supplied then larger customers can be left out of this VOLL compensation mechanism. We note in the Ofgem Impact Assessment that the £20 /therm VOLL is at the high end of I&C customers and there are many I&C customers who have a lower economic value of VOLL. This being the case, SSE believe that running a demand side reduction auction will be an essential way of avoiding a GDE from occurring.

**Question 4:** Do you agree that it is appropriate to retain the Emergency Curtailment Quantity (ECQ) arrangements? If not please explain why.

The ECQ should be retained to encourage suppliers and customers to enter into commercial interruption services that may help to avoid a GDE. It is unlikely that only the customers of those shippers that are short of gas would have their supplies interrupted by NGG in an emergency. As such, some shippers would not receive revenues from consumers interrupted by NGG even though they provided sufficient gas to the network to be able to supply those consumers.

**Question 5:** To what extent do our proposals alleviate shippers' concerns about credit implications of targeting the full cost of multiple days of interruption on shippers that were short on day one of a stage 3 (network isolation) interruption?

It is appropriate that where Shippers are short on a day of network isolation, then the cashout is restricted to one day because it is outwith the control of the Shippers to affect the restoration of the network, this is the responsibility of the Transporters.

However, a cashout capped at VOLL of £20 /therm will create onerous credit requirements which will raise the operational cost of participating in the gas market and could present a barrier to new entry. The high cash out cost also has the potential to cause the bankruptcy of short Shippers. In a worst case situation a contagion effect could occur where multiple Shippers are forced into bankruptcy as a shortfall in compensation funding is heaped on a reducing number of remaining Shippers. To minimise this risk companies could set up Shipper companies that are separate legal entities and could become insolvent in isolation. New Shipper companies could then be created after the emergency. This potential unintended consequence must be avoided.

**Question 6:** Should extended payment terms be applied to emergency cash-out (possibly to align with payments through the PEC payment process)?

SSE is not supportive of extending payment terms for the payment of cash-out and or compensation beyond existing UNC arrangements. Doing so will only decrease transparency and increase counter party trading uncertainty and risk.

An extended process would allow a short Shipper to engineer an exit from the market whereby defaulting on its obligations, transferring its obligations to remaining Shippers.

**Question 7:** Will enhanced incentives to avoid an interruption occurring increase the number of interruptible contracts entered into by industrial consumers? Please explain why.

Suppliers' readiness to take measures such as entering into interruptible contracts and participating in demand side reduction auctions facilitated by NGG similar to OM services might be incentivised. However, it will rely on Customers being willing to enter into interruptible contracts.

**Question 8:** Do you agree with our broad proposal for collecting monies from shippers and passing this through to customers? If not so you have an alternative proposal?

SSE are concerned that paying an equivalent compensation of £20 /therm to customers who have undergone involuntary Demand Side Interruption, could under certain circumstances bankrupt affected Suppliers if more compensation was to be paid out than collected from short Shippers. This situation could arise if large numbers of customers were isolated to balance the network but a smaller quantity of gas deficit had caused the imbalance.

The high cash out cost also has the potential to cause the bankruptcy of short Shippers. To minimise this risk we would anticipate companies to set up shell Shipper companies that are separate legal entities and are designed to become insolvent in isolation. New Shipper companies could then be created after the emergency.

To avoid the unintended consequences of the draft policy decision described above SSE recommend the following solution:

1. long and balanced Shippers should not be held jointly and severally liable for compensation arising from short shippers
2. and compensation paid to customers for interruption by Suppliers should be capped at the sum collected from the short Shipper(s).

#### **CHAPTER 5: Possible further interventions**

**Question 1:** Do you agree with our assessment that a gap in the emergency arrangements would remain following the introduction of capped cash-out? If so, to what extent do you believe that this gap can be overcome through further interventions?

SSE acknowledge that some further intervention might be required. This might be required if industry participants placed a very low probability on the event or they expect to become bankrupt in an emergency. For this reason SSE consider it important that the SCR on cashout and the interventions are developed on the same timescale. Failure to do this may result in a sub optimal solution for the industry.

**Question 2:** Have we captured the full set of potential further interventions? If not what other further interventions should be considered?

SSE have a preference for Demand Side Response and as a worst case intervention a Storage Capacity Payment Mechanism, we believe all the other interventions are flawed.

SSE do not believe that there is a need for additional storage at this time. This is reinforced by the current market which is signalling low volatility and spreads which creates a challenging operating environment for existing storage assets. Any future intervention must not distort the commercial storage market and must not discriminate against existing assets. Any intervention that did unfairly distort the market would



damage the UK's reputation for competitive markets, breach the EU Regulation and risk undermining future investment.

If a storage intervention was forced, SSE has a strong preference for a non-targeted capacity payment mechanism. This will not discriminate between existing or new assets. NG will determine a level of storage required, an auction will be run where bids are placed and the cheapest bids that meet the volume target would be compensated by payment from the capacity mechanism at their pay as bid level. This would be in line with the current proposed EMR reforms and justified when considering that gas security and flexibility will ultimately support the electricity market. The capacity mechanism could be collected from SO commodity charges and paid to storage operators. This will ensure the lowest cost and most economical solution for storage intervention.

**CHAPTER 6: Assessment of options Question 1:** Do you believe we have captured all the appropriate options?

No, the options do not take account of potential further interventions.

**Question 2:** Do you agree with our assessment of the costs and benefits of the various options?

No. The questions and answers published by Ofgem on 20th January that go into detail of the inputs & assumptions used in the Redpoint modelling suggest that more thorough analysis is required. The cost benefit analysis is based on a set of assumptions that are a small set of many possible scenarios. It would be possible with sufficient time & resource to arrive at an equally valid different set of costs & benefits. Ultimately, the impact of the proposed reforms will be to increase costs to end customers, a less liquid UK gas market and Shipper companies that are less robust. However, this may be offset by a more secure supply for end customers, although quantifying this benefit is particularly challenging.

**Question 3:** Do you agree with our assessment on a preferred option?

SSE supports a hybrid of option 4. In this solution, compensation should be based on the existing GDN Standards of Performance. If Ofgem persist with the draft decision proposals then compensation will need to be limited to the amount of funds collected from Short Shippers. There must be no recycling of a shortfall in compensation to other short/long/balanced Shippers as this could drive them into liquidation or deter them from acting in a prudent manner.



### **APPENDIX 3: Further interventions**

**Question 1:** *Do you have a preference for a specific intervention/s that you think might be most effective for ensuring security of supply while minimising the risks and unintended consequences?*

#### **Demand Side Response**

A centrally organised, volume based DSR auction would allow any DM customers to bid for interruptible contracts before winter. Successful bidders would receive an exercise only price should they be interrupted. Those DM customers that choose not to offer DSR services or were unsuccessful in an auction offering would not receive VOLL cash out compensation should they subsequently undergo involuntary interruption.

SSE believes that an exercise only option, which is volume capped and has NGG contracting with suppliers for customer turn down will provide the most effective and cheapest solution. NGG already run an OM auction and the DSR could use a similar model to reduce admin costs.

SSE believes that DM customers would have a strong incentive to participate in the auction as they would receive an exercise price should they be interrupted. Hence, it is very likely that the volume of interruptible contracts will increase, which will reduce the likelihood of firm interruptions. Also a DSR auction would facilitate the interruption of DM customers in the most economically optimal order, thus reducing the severity of emergency and increasing market efficiency. The benefit of a pre-planned auction is that it provides the network operator and customer with certainty which facilitates planning in advance of the emergency. With a reliable contact list & agreed prices; NGG and customers will know in advance of a tightening supply/demand situation what actions they are obliged to take, whereby, ensuring the UK should avoid an emergency.

This has the significant benefit over other interventions that the cost will be low. This is because it is exercise only. All the other interventions require expensive investment (storage) & costs (contracts) that must be paid for every year regardless of whether they are used or not.

#### **Standard Contracts**

Standard contracts could be introduced to facilitate the agreement of interruptible contracts between suppliers and customers. SSE believes that such an intervention could increase the use of interruptible but would require customer participation.

#### **Information Provision:**

An information provision would oblige suppliers and/or shippers to provide relevant information on their demand and supply portfolio to Ofgem and/or the system operator. SSE believes this would be of limited value because positions are dynamic and contracts are traded continuously.

#### Licence Condition:

An ex-ante licence condition could require suppliers and/or shippers to provide proof that they have arrangements in place to have sufficient gas to meet their customers' gas demands under severe conditions (e.g. 1 in 20 peak day). Failure to prove this would constitute a licence breach which could result in a fine. However, SSE believes this would be of limited value because positions are dynamic and contracts are traded continuously.

Alternatively, an ex-post licence condition could require suppliers and/or shippers to use best endeavours to ensure they meet their customers' gas demands. SSE believes that a licence condition will not ensure that enough physical gas is available. This is because financial contracts could have been agreed, or the infrastructure used to import the gas could fail. The risk of an ex-post system is that an extensive legal dispute resolves nothing. More likely, following the emergency, the Shipper becomes bankrupt and the licence condition is irrelevant.

#### Reliability Option:

A reliability option could require suppliers to buy options for the delivery of gas for a given strike price. Shippers and potentially other companies would bid to sell such options through an auction. These companies would receive a constant revenue stream from suppliers but would pay the difference between the market and the strike price should the supplier exercise its right to receive gas under the option. SSE believe that if the obligation is financial, option sellers (e.g. shippers) might not respond to the incentives if it seems more profitable for them to keep the option payment and take the risk of having to pay a penalty in an emergency

**Question 2:** Do you think that standard contracts combined with cash-out reform provide the necessary incentives for suppliers to increase penetration of contracts for interruption?

Perhaps, although it will ultimately be up to customers to sign these contracts. However, SSE consider a DSR auction to be a more effective solution.

**Question 3:** *A number of stakeholders have suggested an auction for interruption. We outline several challenges with such an approach and are keen to hear proposals on how to overcome these challenges.*

In question 1 above we answered that we preferred DSR auctions. The concerns Ofgem outlined in its draft decision document are addressed below:

1. Ofgem has proposed that those customers that do not bid or are unsuccessful in the auction will not receive payment should they subsequently be interrupted. SSE considers that this is reasonable because only protected customers come under the EU regulation. Given that a large volume of gas could be offered into the auctions from power generators ( 1.6 TWh/day out of a forecast peak day demand day of 6.6 TWh/day and

only 0.4 TWh NTS industrial, NG 10 Year Statement table A2.1.3) then it is extremely unlikely that none voluntary interruption will be necessary.

2. Although a volume cap auction might not be as cost effective as a price auction, the solution as a whole will be significantly cheaper for the industry than other interventions. This is because costs will only be incurred once interruption is required rather every year regardless if an emergency occurs or not.
3. The admin to manage an auction will be very similar to that used to run the OM auction. This is well understood by industry and the costs will be low relative to other interventions. We do not agree that isolations will take any longer as a result of the contracts. We would expect the physical isolations to be quicker because parties will have entered into the contracts voluntarily in advance and will be prepared.
4. NGG had previously stated that in the interests of safety, large customers may be required to be interrupted first. If this is still the case, any auction can have a minimum volume stipulation as is currently the case in OM tenders.

**Question 4:** *If some kind of storage obligation was to be implemented, do you favour an obligation on suppliers or shippers? Alternatively, do you think the system operator or government should invest in strategic storage or build storage facilities for the industry to use?*

SSE does not believe that there is a need for additional storage at this time. This is reinforced by the current market which is signalling low volatility and spreads which creates a challenging operating environment for existing storage assets. Any future intervention must not distort the commercial storage market and must not discriminate against existing assets. Any intervention that did unfairly distort the market would damage the UK's reputation for competitive markets, breach EU Regulation and risk undermining future investment.

SSE is not supportive of a storage intervention, but if one were forced then SSE has a strong preference for a non-targeted capacity payment mechanism. This will not discriminate between existing or new assets. Existing assets must not be excluded because an unintended consequence could be to close existing assets that earn only depressed market revenues and then build a new asset that earns depressed market returns & capacity payments. The capacity mechanism could be collected from SO commodity charges and paid to storage operators. The required volume of storage could be bid for in an auction and the successful assets would be compensated at the pay as bid level through the capacity payment mechanism. This would be in line with the EMR reforms and justified when considering that the gas flexibility will partially support the electricity market.

SSE believes that guaranteed regulated returns for new assets will result in an undermining of the existing commercial storage market.

With regards to strategic storage SSE questions if it can ever be implemented in such a way as to minimise unforeseen consequences and distortion of the commercial storage market.

SSE is opposed to a storage obligation on either Shippers or Suppliers as this will depress investment returns on storage assets because ultimately storage revenues will collapse in an oversupplied market created by the storage obligation. We consider that this would be a breach of the EU Regulation article 8.

### **Impact Assessment**

#### **CHAPTER: 1. Background and Objectives**

**Question 1:** *Do you agree with our modelling approach and the assumptions we have made?*

See above response to question 2 in chapter 6.

**Question 2:** *Are there any other limitations to our modelling approach that have not been accounted for?*

See above response to question 2 in chapter 6.

#### **CHAPTER: 2. Impact of Reform Options**

**Question 1:** *Have we fully captured the key impacts arising from our reform options?*

There are a number of potential unintended consequences that need to be considered:

1. The impact of lower liquidity at the NBP if sellers only sell at the beach to avoid NBP 97 cashout compensation arrangements.
2. Less robust shipper companies, designed to fail in isolation that then increase the possibility of a cascade effect on shipper / supplier insolvency.
3. Increased credit costs that increase operational costs and might deter new entrants.
4. Socialisation of compensation payments to balanced shippers that deters prudent behaviour.

**Question 2:** *Do you agree that capping cash-out as proposed under options 2 and 4 will significantly reduce the risk of adverse consequences for competition?*

No, there will still be consequences of capping emergency cashout at £20 therm, these consequences are discussed above.

**Question 3:** *Do you believe that our modelling under or over estimates consumer price increases?*

There are currently many pressures on customers' bills from various initiatives, the costs incurred in these reforms by the industry are likely to be passed onto consumers.

**Question 4:** *Can you provide further evidence on the impact of our reform options on competition, in particular in relation to financial distress, credit requirements and barriers to entry?*

The impacts are outlined in Question 1 above. However, we have not been able to quantify these at this time.

**Question 5:** *Can you provide information on the costs of implementing the proposed reforms, such as system changes and staff training?*

We have not been able to quantify these at this time.

**Question 6:** *Have we effectively modelled interactions with other markets?*

The impact on the electricity market has not been modelled and needs to be.

**Question 7:** *Do you agree that the use of interruptible contracts will be encouraged through a reform of the cash-out arrangements?*

Through a demand side reduction auction process administered by NG NTS, SSE would anticipate a GDE being avoided and the costs to the industry being minimised.

### **CHAPTER: 3. Conclusion**

**Question 1:** *Do you agree that option 4 is the best option?*

SSE has described its support for a dynamic cashout price in a GDE. But there might be unintended consequences that need to be addressed as identified below:

1. The impact of lower liquidity at the NBP if sellers only sell at the beach to avoid NBP 97 cashout compensation arrangements.
2. Less robust shipper companies, designed to fail in isolation that then increase the possibility of a cascade effect on shipper / supplier insolvency.
3. Increased credit costs that increase operational costs and might deter new entrants.

However, we do not support the current compensation payment proposals. In-addition, the further interventions work should be carried out in the same time frame as the cashout reform to avoid unintended consequences or sub-optimal solutions.

**Question 2:** *Do you think that table 12 provides an appropriate assessment of the reform options?*

No, these are complex issues that the simplification attempted by the pictorial representation is challenging and highly subjective.



Please do not hesitate to contact me if you wish to discuss this further.

Yours sincerely

Jeff Chandler  
Head of Gas Strategy  
Regulation & Strategy