

Thomas Farmer
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Dear Thomas

Gas Security of Supply Significant Code Review – Proposed Final Decision

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

EDF Energy has followed and participated in this first Gas SCR since it was launched in January 2011. Security of energy supply is of paramount importance and we believe that arrangements should be in place to ensure the market is well equipped to deliver energy at affordable prices for consumers. We welcome the work that Ofgem has done throughout this Significant Code Review and the opportunity to comment on Ofgem's proposed final decision and draft business rules.

The key points of our response are as follows:

- Any changes to the gas emergency arrangements should be consistent with the Government's low carbon, affordable and sustainable energy policy objectives.
- These proposals need to be practicable and incentivise parties to balance close to and in an emergency, granted that these are low probability events.
- The arrangements need to avoid creating unintended consequences that could decrease security of supply or competition.
- Compensating disconnections – we agree that disconnected consumers should be compensated and that it should be under the "polluter pays" principle. However, we note that the business rules state that long shippers will be obligated to fund the compensation pot if it is short for whatever reason.
 - This is not acceptable. The risks should be placed on those who can best manage them – suppliers should not have to manage other suppliers' risks. Long shippers, or those left standing in such a scenario, should not have to bear the cost of other failed suppliers.
 - The business rules are deficient in this respect and there needs to be some guarantees that shareholders will not bear these costs. We note that liabilities do not pass on to a Supplier of Last Resort (SoLR).
- We agree that compensation to those customers interrupted in an isolated Local Distribution Network should be limited to one day in view of to the time it takes to reconnect an LDZ.

- Credit risks - we believe these have increased under these proposals, as noted by the Energy Balancing Credit Committee. Extra credit arrangements may therefore be required just before or during an emergency, to reduce the impact of failed shippers and compensation liabilities on market participants after the event, unless this risk is managed through an alternative approach.
- Demand-side Response as an option should still be considered as a valuable and proven source of supply security.
 - The prices from these contracts will present a robust and transparent cash-out price reflecting the value consumers place on secure gas supplies.
- It is not clear how these arrangements interact with the EMR and the Capacity Mechanism arrangements being developed by DECC.
 - The interactions with this and the electricity market arrangements in general need to be reviewed holistically. We note there may be an incentive to burn gas for CCGTs contracted into the Capacity Mechanism, which may occur in an already tight gas market.
- It is important to consider how these arrangements interact with Continental Gas markets, EU Codes and Gas (Security of Supply) Regulation.
 - The GB market is linked to the major continental hubs where the NBP is used as a reference price and even cash-out price; however, to date Ofgem has discussed these proposed rules only with the Irish regulator¹.
- Further interventions – we await the publication of DECC’s report, but note that these proposed arrangements will need to work in conjunction with any further proposals from DECC.
- Finally, these proposed changes to the UNC rules should continue to meet the relevant objectives to promote competition amongst gas suppliers and shippers and not act as a barrier to entry or threat to smaller suppliers.

We hope you find our comments on Ofgem’s final proposals useful. Should you wish to discuss any of the issues raised in our response or have any queries, please contact Mark Cox on 07875 115499, or myself.

I confirm that this letter and its attachment may be published on Ofgem’s website.

Yours sincerely,



Denis Linford
Corporate Policy and Regulation Director

¹ Ofgem Final Gas SCR Proposals seminar 7th September 2012