



Anjali Mehta  
Ofgem  
9 Millbank  
London, SW1P 3GE

Sent by e-mail to: [gb.markets@ofgem.gov.uk](mailto:gb.markets@ofgem.gov.uk)

23 October 2012

## **Introduction**

Gazprom Market & Trading (GMT) welcomes the opportunity to respond to the SCR Final Proposals, however, we are unable to provide detailed comments on the business rules and licence changes as we remain unconvinced that the proposals are appropriate, particularly in view of the objectives set out by Ofgem at the commencement of the review.

On this basis, our comments will focus on the main weaknesses of the proposal and a request that Ofgem desists from progressing implementation.

## **Concerns with the Final Proposal**

At the highest level, GMT believes that the proposals will have an opposite and detrimental effect on supply security running counter to the objectives underpinning its development. This can be explained as follows:

- A £20/therm cash-out price is arbitrary and will, rather than act as an incentive on shippers to “insure” against imbalance risk, will undermine liquidity - due to credit limitations, and we predict company insolvencies
- There is little doubt that an administered price, whatever the level will, particularly during periods of limited liquidity, lead to a rapid escalation of prices prior to the enactment of VoLL. It is naive to think that markets behave in a rational manner during periods of system stress and imminent emergency.

- The arrangements for recovering DSR revenue shortfalls via standard neutrality contributions will deter producers/importers from maximising flows for fear of incurring unpredictable, yet significant costs.
- There is a base assumption that shippers will contract for DSR in response to the potential for punitive cash-out penalties. This can only be described as a “leap of faith” as it assumes a) shippers will properly assess the risk of an emergency and contract accordingly, b) customers will be willing to enter into such contracts with shippers, c) that shippers will be in a position to enter into such contracts. Irrespective of your view on the first two points, it is the last point which causes particular concern. If one considers the position of a large importer/producer affiliated shipper which is not active in the downstream supply market, then it is impossible to foresee what options are available to it to effectively and economically “invest” in alternative risk mitigation products. It is wholly unrealistic to expect, for example, a shipper to invest in gas storage to meet a low probability and unpredictable event, which means that ultimately it is reliant upon others to acquire sufficient DSR to avert a GDE occurring. GMT believes that the allocation of risk is not appropriately aligned, leading to ineffective outcomes.

### **Looking forward**

GMT is disappointed by the fact that Ofgem has decided to move ahead with the Final Proposals prior to assessing the outcome of the DECC review of Security Measures. Equally, we are disappointed that DECC has been presented with analysis which assumes the implementation of the SCR Proposals rather than a full and impartial representation of the issue.

GMT is encouraged that British Gas has taken the positive step of raising a modification proposal which offers a more practical way forward and that, at the time of writing, Ofgem has not suspended the proposal’s progress. We trust that Ofgem will maintain this stance and defer making a decision on the SCR until such time as the alternative solution has been thoroughly investigated and “worked up”. Premature implementation of the SCR Final Proposal would, in our view, be ill-advised and deny the industry an opportunity to consider a proposal which, at this stage, would be more disposed to the realisation of the SCR objectives.



Yours sincerely,

Alex Barnes

Head of Regulatory Affairs  
Gazprom Marketing & Trading.

*Unsigned as sent by e-mail.*