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Joanna Whittington
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Dear Joanna

Ofgem open letter on REMIT

We appreciate the opportunity to respond to Ofgem's open letter regarding implementation of REMIT. In particular, we urge Ofgem to:

- establish an indicative threshold in gas of 2.5mcm/day for determining price significance
- 'benchmark' the REMIT information being published by firms to establish what, when and how information is being released to the market
- make available (non-confidential) information on the use of any exemptions from disclosure under REMIT

These three steps are crucial for establishing a more level playing field of REMIT disclosure (and transparency) across UK power and gas markets.

The annex to this letter sets out our response in more detail. If you have any questions do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'CAltin'.

Cemil Altin
Head of Regulatory Affairs

Annex 1: Detailed answers to questions**3. What do you see as the advantages and disadvantages of moving towards the use of transparency platforms, either at EU level, regional or national level?**

Our view is that a national platform is sufficient to ensure an appropriate level of centralised information disclosure under REMIT and other transparency requirements (i.e. under the Third Energy Package). We have significant reservations about whether a single EU platform would be sufficiently robust to provide a guaranteed route for publication of information. This is particularly crucial for REMIT information where non-availability of a transparency platform could impact the ability of a firm to continue trading (potentially across the whole of the EU). Experience so far from any EU transparency platform has not been positive – with frequent failures and lack of engagement with stakeholders about how the platform could be best developed. The national platforms that have been established (e.g. in France and the UK) have worked well and we would support an EU platform being used solely to aggregate information published on national platforms.

4. Are there significant differences between the needs of electricity and gas market participants for a transparency platform? If so, what are these?

In our view there are no significant differences between power and gas. All platforms should adhere to basic principles of transparency: free access to all; data published in user friendly and downloadable format, reliability of service, no delays in publication, appropriate support functionality etc.

5. What are the characteristics of an effective transparency platform? Do you see any issues in using transparency platforms to meet your REMIT obligations?

Please see our answer above. Subject to a platform meeting the criteria above we would have no issue using it to meet our REMIT obligations. We already use the National Grid REMIT platform although we retain the option of a back up route for publication through our own website.

6. Who are the main users in your organisation of inside information disclosed by other market participants? What information do you need published on such platforms by all participants?

The main users of the information disclosed by market participants are analysts, trading, origination and operational teams. The platforms should provide a robust service for market participants to publish, on a consistent basis, all of their REMIT information and any other transparency information (i.e. from the 3rd Energy Package).

7. What is an appropriate GB gas market threshold for inside information disclosure and why?

We share Ofgem’s view that the price significance threshold for disclosure of inside information in gas should reflect the characteristics of the relevant national market.

All firms should have assessed by now what they consider to be an appropriate threshold for disclosure. There is no correct way to make that assessment but in doing so it is important to bear in mind that one of the underlying principles of REMIT is to improve transparency.

We understand that 10mcm/day has been highlighted in the industry as a potential threshold for determining price significance in the UK gas market. This was originally used for the publication of real-time gas flow information at UK entry points. However, gas production from the UKCS has declined significantly since then and will continue to do so in the future. The 10mcm/day figure would represent around 4% of the average UK daily winter demand and 8% of average UK daily summer demand (for 2011 and 2012). It is difficult to test whether this threshold would be a reasonable estimate of price significance but our qualitative view is that it is too high – a reduction in supply of between 4-8% is very likely to have a significant price impact in the UK market.

The gas market has a considerable impact on UK power prices. This is an important factor to consider when defining an appropriate threshold for gas. ACER’s guidance indicates that outages in the electricity market greater than 100MW may constitute inside information. This figure equates to approximately 0.2% (winter) to 0.5% (summer) of the hourly UK demand for electricity.

Table 1: Threshold for UK power markets

Power Hourly Demand in UK	2011	2012
Unit	MW	MW
Max Hourly Winter	54,981	55,614
Average Hourly Yearly	35,094	35,246
Min Hourly Summer	19,001	19,266
Unit	MW	
Threshold for power	100	
Unit	%	%
% of Max Hourly Winter	0.18%	0.18%
% of Average Hourly Yearly	0.28%	0.28%
% of Min Hourly Summer	0.53%	0.52%
Unit	%	
Threshold for power	0.2% - 0.5%	

Source: Power demand data from ENTSO-E

While absolute consistency between power and gas is not necessarily in the threshold - it is clear that significant differences will impact the level of transparency and well functioning of the market.

If you take the upper threshold in power of 0.5% and applied it to gas it would translate to around 1mcm/day on average. We believe that in general this figure is too low and is likely to result in unnecessary publication of

information which could perversely reduce transparency. However, based on the analysis below we would advocate a threshold of 2.5 mcm/day (i.e. more than double the equivalent threshold used in power). This would represent around 1% of average daily winter demand (and over 1.5% for average daily summer demand).

Table 2: Threshold for UK gas market

Gas Daily Demand in UK		2011	2012	2011	2012	2011	2012
Unit	mcm/day	mcm/day	mcm/day	mcm/day	mcm/day	mcm/day	mcm/day
Average Daily Winter	251.8	244.9	251.8	244.9	251.8	244.9	
Average Daily Summer	149.0	139.5	149.0	139.5	149.0	139.5	
Average Daily Yearly	200.4	192.2	200.4	192.2	200.4	192.2	
Unit	%		%		%		
Threshold for gas	0.50%		1.00%		1.50%		
Unit	mcm/day	mcm/day	mcm/day	mcm/day	mcm/day	mcm/day	mcm/day
Threshold on Average Daily Winter	1.26	1.22	2.52	2.45	3.78	3.67	
Threshold on Average Daily Summer	0.74	0.70	1.49	1.40	2.23	2.09	
Threshold on Average Daily Yearly	1.00	0.96	2.00	1.92	3.01	2.88	
Unit	mcm/day		mcm/day		mcm/day		
Threshold for gas	0.7 - 1.3		1.4 - 2.5		2.1 - 3.8		

Source: Gas demand data from National Grid

We believe that 2.5mcm/day would strike a reasonable balance between:

- delivering much needed improvements in gas market transparency (particularly offshore) which would be consistent with Ofgem's objectives on cash out reform in allowing the market to respond to signals and remain open for longer in the event of an emergency
- not creating an unnecessary level of publication that could confuse market participants
- ensuring an appropriate balance in transparency between the UK power and gas markets

Other potential REMIT issues

We also want to highlight a number of additional issues under REMIT:

- **benchmarking of information disclosure under REMIT** – it is clear that firms are interpreting the disclosure requirements under REMIT differently. This is resulting in differences in the information that is being published and when it is being released to the market. Although compliance against REMIT is an issue for individual firms there is value in Ofgem undertaking an assessment of disclosure arrangements to inform its ongoing monitoring of UK power and gas markets;
- **release of (non-confidential) information on any use of the exemptions from disclosure under REMIT** – REMIT allows delays in disclosure of inside information under strict conditions. It is beneficial for the market to understand how many notifications have been made to Ofgem and the general nature of these; and

- **nomination information that is being made available through Gemini** - nomination information is closely followed by the market (as a proxy of physical flows) to understand fundamentals. Although some discrepancies are to be expected between nominations and physical flows there have been some instances of large nominations that have not resulted in any physical flows (or very significant differences). Nomination information should be treated the same as any other information under REMIT and as such firms should not be publishing information that could be misleading.
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