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## **Gas Security of Supply Significant Code Review: Draft Business Rules with no DSR Mechanism**

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.

We welcome the opportunity to comment on Ofgem's final policy decision and supporting legal text. We generally believe the latest set of arrangements are an improvement and we appreciate Ofgem's engagement with industry to progress the issues. We also welcome the fact that Ofgem has directed National Grid through licence conditions to develop a Demand Side Response Methodology which we believe supports and compliments the proposed changes to emergency cashout. It should produce prices that better reflect the value large consumers place on secure supplies which should reduce the likelihood and duration of a Gas Deficit Emergency – the original objective of this Significant Code Review (SCR). Below we have highlighted our main points in relation to Ofgem's documents:

### **Policy decision**

- We support the final decision to unfreeze and keep cashout prices dynamic in an emergency and introduce a VoLL of £14/th which will fund domestic consumers interrupted through network isolation.
- Compensation – we welcome Ofgem's decision to limit the amount of compensation if the pot is short because of short shippers who then overall are long on the day. However, we still note the risk of contagion if the cost of defaulting shippers is smeared on remaining shippers.
- In terms of calculating NDM volumes interrupted we believe using existing demand attribution calculations would be more accurate and appropriate than Ofgem's proposal of using average volumes based on domestic load bands.
- We agree the price that DMs should be paid should be an average of the last 30 days SAP which should incentivise interruptible contracts to be signed ahead of an emergency.
- DSR auction - we agree this should be progressed but expected to see more detail on the auction design itself such as the type of product being offered and the success criteria used to determine if it should be implemented. However, we welcome Ofgem's strong steer on the following areas:
  - Using NG's OCM platform is the most efficient option as Poyry's Impact Assessment (IA) highlights.

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- CCGTs should be excluded from such an auction to minimise distortions and unintended consequences as they already have a route to market through the OCM and can optimise within day. However, we believe the role of CCGTs in this situation needs to be further clarified because of the interaction with EMR and the Capacity Mechanism. For example, it would be helpful to provide clarity on the scenarios where NG may call an emergency to access CCGTs and interrupt them directly in stage 2 in advance of full use of priced DSR.
  - We support Ofgem's decision not to include Option fees in such an auction to be efficient as the IA highlights.
- We are satisfied with the contingency cashout price formation proposed should liquidity and trades dry up on the day. However, it would be useful to have as much transparency of market activity on the day as possible. Some form of target Linepack or updated system position from NG throughout such a day would help market participants better understand the situation and respond accordingly.

In terms of the Licence conditions Ofgem has drafted, we are satisfied that they broadly cover the obligations going forward however on:

- Supplier and Shipper licence conditions – we believe these reflect the business rules to ensure that compensation will be passed to interrupted consumers. However, we stress that in an extreme event the number of domestic consumers interrupted could be high and therefore it would take a while to pass on the compensation as it will be a manual process given the likelihood of an emergency. In this respect we believe the proposed licence condition to make the payment “as soon as reasonably practical” is suitable.
- Transporter LC 81.5 – we believe it should read ..... “must engage with interested parties” on the design of the Demand Side Response Methodology and “provide a consultation” before submitting the draft Demand Side Response Methodology to the Authority no later than 1 March 2015.

We hope our comments have been useful. Should you wish to discuss any of the issues raised in our response or have any queries, please contact John Costa on 020 3126 2324, or me.

I confirm that this letter may be published on Ofgem's website.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Mark Cox".

**Mark Cox**  
**Head of Transmission & Trading Arrangements**