



Energy for
generations

ESB

3rd Floor, Regent's Place, 338 Euston Road, London NW1 3BT

Phone +44 (0) 20 7544 8631 Fax +44 (0) 20 7544 8580

esb.ie

Tom Farmer
Wholesale Markets
9 Millbank
London
SW1P 3GE
wholesale.markets@ofgem.gov.uk

9th April 2014

Gas Security of Supply Significant Code Review: Final Policy Decision

Dear Tom,

Having followed the Significant Code Review (SCR) process for the past three years, ESB welcomes the publication of the Final Policy Decision. However, we have some concerns about the potential impacts of the SCR cash out reforms on gas supplies to the island of Ireland, as well as a lack of certainty regarding the introduction of a DSR mechanism, and the participation of gas-fired generation.

In a future energy world with a greater penetration of intermittent generation, the market will increasingly rely upon gas-fired plant to balance the system. We appreciate – and support – the aim of maintaining security of supply. However, we do believe that the market as it stands can continue to deliver to British and European supply security standards.

As an active shipper of gas across the Moffat Interconnector to our significant generation and supply interests in the Single Electricity Market (SEM), we are particularly concerned about the potential impacts of the SCR upon security of supply to the Republic and Northern Ireland. We have concerns that the increased cash out risk upon shippers in the GB balancing arrangements will unduly incentivise domestic delivery above those contracts delivering to the Moffat interconnector. We understand that in the spirit of Regulation (EU) 994/2010, a joint working group for GB, Northern Ireland and the Irish Republic has been established to address the regional aspect. In particular we are interested to gain greater comfort on Ofgem's obligations under Article 10 of the Regulation, which concern ensuring that measures introduced have no undue restrictions on cross-border flows, do not endanger seriously the gas supply situation of another Member State, and ensure cross-border infrastructure access is maintained as far as technically and safely possible.

In order to mitigate the additional security of supply risk faced as a result of the cash out decision, we would like to see shippers across the Moffat interconnector able to bid into the DSR auction. Representing end consumers on the island of Ireland, bids – in a "turn down to" format, exercised after a Gas Deficit Warning (GDW) – would have the dual benefit of freeing up gas supplies in GB to prevent an emergency, and protecting minimum essential supplies to Ireland (thus enhancing security of supply in both markets) as well as developing



Energy for
generations

a cross border market. Moffat shippers, who are signatories to the UNC, would transfer payment to the end user, in line with the proposed shipper licence condition. We are happy to discuss this possibility with both Ofgem and National Grid.

Contrary to Ofgem's minded to position in the Final Policy Decision document, we strongly believe that gas-fired generation should be able to bid into the DSR auction. Although such plant do already have a route to market any exclusion could be unduly discriminatory. We also believe that participation of gas-fired generation could provide National Grid with certainty regarding the volumes of gas physically responding.

Given the extent of change currently under way in the GB electricity and gas markets – taking into account European changes as well as Electricity Market Reform – certainty and resources are at a premium. With this in mind, we are concerned that the decision in relation to the establishment of a DSR mechanism has been deferred. There is a possibility that a year of work could be undertaken by National Grid and industry, both pushed for resource, with an end result of a decision by Ofgem not to implement. We believe it is important that costs should be kept to a minimum during the methodology development stage.

We welcome this opportunity to comment upon the draft business rules, licence changes and code changes released by Ofgem in this consultation. Please do not hesitate to get in touch should there be any queries.

Best wishes,

Felicity Bush
Regulatory Analyst
ESB
020 7544 8632
felicity.bush@esb.ie