

Bob Fletcher  
UNC Panel Secretary  
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Dear Bob

**EDF Energy response to UNC Modification Proposal 0285: “Use it or lose it” (UIOLI) Interruptible Capacity only to be released when there is at most 10% unsold firm entry capacity”.**

EDF Energy welcomes the opportunity to respond to this UNC Modification Proposal. We strongly oppose implementation of Modification Proposal 0285.

We believe that the wider impacts of this proposal significantly outweigh any benefits that may be observed. We are concerned that:

- Implementation of this proposal will further add to the regulatory uncertainty in the UK. This could detract from further investment and so threaten the UK’s security of supply position.
- This proposal has failed to undertake any analysis on the impact that this proposal will have on competition and Shippers. In particular no analysis has been undertaken to identify whether any particular “class” of Shipper books interruptible or firm term entry capacity.
- This proposal could have a detrimental impact on prompt liquidity and NBP volatility by reducing the attractiveness of the UK for marginal gas supplies.
- No analysis has been undertaken to identify whether implementation of this proposal would have restricted the release of available capacity historically that was subsequently required to meet peak demand.
- Implementation of this proposal will reduce the attractiveness of maintaining declining offshore fields and so reduce the longevity of these fields. This will have a detrimental impact on the UK’s security of supply and tax revenue.
- This proposal fails to take account of developments in Europe, and so runs the risk that this proposal will need to be reversed in the near future.
- This proposal is contingent on implementation of Transportation Charging Methodology Proposal GCM19, changes to NGG NTS’ Licence and future additional UNC proposals. Without implementation of these none of the relevant objectives will be facilitated.

EDF Energy would also note that the release of daily interruptible capacity will be based on the results of the RMTTSEC auctions. These auctions take place almost a month before the earliest release of interruptible capacity, and will impact on interruptible capacity released almost 2 months into the future. Weather and so gas demand can vary significantly in this window and so operational requirements can also vary significantly. However despite concerns expressed from industry NGG NTS has chosen not to progress a solution whereby the release of interruptible capacity is based on the day ahead auctions, apparently on the grounds that this is “too hard” due to the system constraints. Due to the importance of this issue we believe it would have been better to conduct further analysis and appraisal on these issues and possibilities, rather than dismissing them to the “too complex” box.

In relation to the Modification Proposal EDF Energy would make the following specific comments:

**3. Extent to which implementation of the proposed modification would better facilitate the relevant objectives.**

**Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;**

EDF Energy disagrees with the proposer that implementation of this proposal would encourage longer-term bookings of entry capacity and so improve NGG NTS’ ability to operate the system. In particular we note that this proposal only looks to reduce the amount of interruptible capacity that is released. As a stand alone proposal were this to be implemented EDF Energy believes that those Shippers who currently booked interruptible capacity will instead purchase capacity through the WDDSEC auction. We do not believe that this will aid NGG NTS in planning and operating of the system.

We also note that no analysis has been undertaken to identify whether this proposal would restrict the release of interruptible capacity that historically would have been released and flowed against to meet peak demand. In particular we note that under the current arrangements NGG NTS is required to release all firm capacity that is not being utilised. For example under the current arrangements if an ASEP had a baseline of 100 GWh/day, and Shippers had booked 50 GWh/day, but were only flowing on average 10 GWh/day then NGG NTS would be forced to release 40 GWh/day as interruptible (plus any discretionary) and 50 GWh/day of firm capacity through the WDDSEC and DADSEC auctions. Making a total of 90 GWh/day of capacity and so flows available for the ASEP. However under this proposal NGG NTS would only make 50 GWh/day of firm capacity available.

No analysis has been undertaken to identify the impact of reducing the capacity available based on historical information and flows. We would note that were this proposal to reduce the capacity available and so gas supplies when required then this would force NGG NTS to take more balancing actions in the market. We do not believe that this would represent economic and efficient operation of the system and so we therefore believe that this proposal is detrimental to this relevant objective.

**Standard Special Condition A11.1 (c): so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;**

EDF Energy disagrees that this proposal will ensure equal treatment of potential new entry points and existing entry points as interruptible capacity is not released at new entry points that do not exist. We believe that this is a disingenuous argument as capacity is not released at these entry points because they do not exist and there is no physical connection present. It is therefore impossible to release any capacity at these non-existent entry points, including AMSEC, DADSEC or WDDSEC – however no proposal has been raised to ensure consistent treatment for these products. Further EDF Energy would note that once the physical connection exists, then interruptible capacity will be released at these entry points if flows are not fully utilising the booked capacity. EDF Energy therefore believes that this is appropriate treatment and so implementation of this proposal will have no impact on this relevant objective.

**Standard Special Condition A11.1 (d): so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition: (i) between relevant Shippers ...;**

EDF Energy would note that this proposal will reduce the availability of interruptible capacity which would favour those Shippers who purchase longer term capacity. Unsurprisingly therefore this proposal has been supported by those Shippers who will benefit on the grounds that it is "beneficial to competition". However EDF Energy would note that restricting the availability of interruptible capacity is not necessarily beneficial to competition, especially if firm capacity is not released and hoarded by Shippers.

EDF Energy is concerned that no analysis has been undertaken on the classes of Shippers that access interruptible entry capacity and the impact that this proposal may have on these Shippers. In particular we would note that there are numerous Shippers who book entry capacity, including larger "incumbent" producers; small producers who develop niche and declining offshore fields that are unattractive to the "major producers"; traders who contract for physical delivery; and "suppliers" who can arbitrage between markets for the delivery of their gas – such as LNG importers. No analysis has been undertaken as to whether any of these classes of Shipper are more reliant on any particular class of entry capacity. We are therefore concerned that implementation of this proposal could favour certain classes of Shipper over another. This could have a detrimental impact on competition if smaller suppliers are disadvantaged compared to the larger producers.

EDF Energy therefore believes that implementation of this proposal will not facilitate this relevant objective, and may in fact have a detrimental impact on competition.

**5. The implications for Transporters and each Transporter of implementing the Modification proposal, including: (a) implications for operation of the system.**

EDF Energy disagrees that implementation of this proposal would benefit the operation of the system by encouraging longer term bookings.

If this proposal results in decreased gas supplies than would have otherwise have been witnessed, or reduces the attractiveness of the UK to land gas, then this proposal will increase the balancing

actions that NGG NTS is required to undertake. We therefore believe that implementation of this role will have a detrimental impact on the operation of the system.

## 11. Analysis of any advantages or disadvantages of implementation of the Modification Proposal

### Disadvantages

- This is a contingent proposal requiring changes to the charging methodology, NGG NTS' Licence and additional UNC proposals.
- Fails to take into account developments in Europe and consequences of the EU 3<sup>rd</sup> Package. It is therefore likely that these proposals will have to be rescinded and further modifications raised to address this in the near future.
- Inconsistent with Ofgem's European role were they are discouraging the booking of longer term entry capacity and encouraging the release of interruptible capacity.
- No supporting analysis to identify the impact on different classes of Shippers and so the impact on competition and security of supply.
- Would have a detrimental impact on market liquidity if traders taking a physical position are discouraged from entering the market.
- Fails to ensure that the charging for different capacity products reflects the risks associated with these products.
- Has not been subject to sufficient industry discussion and debate as requested by Shippers at the entry charging review group.

## 13. The extent to which implementation is required to enable each Transporter to facilitate compliance with safety or other legislation.

EDF Energy believes that implementation is likely to be inconsistent with legislation that is currently being developed in Europe. EDF Energy therefore believes that implementation now would risk placing NGG NTS in breach of European legislation, directives and regulations in the near future.

I hope you find these comments useful, however please contact my colleague Stefan Leedham ([Stefan.leedham@edfenergy.com](mailto:Stefan.leedham@edfenergy.com), 020 3126 2312) if you wish to discuss this response further.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Seb Eyre'.

Dr. Sebastian Eyre  
Energy Regulation, Energy Branch