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Dear Julian

EDF Energy response to UNC Modification Proposals 141 & 141A “Revision to the “User Suppressed Reconciliation Values” Financial Incentives arrangements.”

EDF Energy welcomes the opportunity to respond to this modification proposal. We support implementation of modification proposal 141 and oppose implementation of modification proposal 141A.

In particular we recognise that the current incentives for User Suppressed Reconciliation Values (USRVs) are failing to provide an adequate incentive on Users to resolve these filter failures. Due to the increasing number of USRVs the industry cap of £100,000 is being constantly hit, with the impact that the incentive to resolve these USRVs is further reduced. We therefore believe that the best solution to this is to increase the cap to £500,000 to ensure that the incentives to resolve these filter failures is reinstated.

We understand from discussions within the Distribution Workstream that under the current arrangements increasing the industry cap to £400,000 would reinstate the USRV incentive. However we welcome Centrica’s proposal to increase the cap to £500,000 to ensure that the proposal can accommodate a further increase in the USRV incentive without reducing the incentive to resolve these. We would note that statistics provided by xoserve clearly show that whilst the incentive to resolve USRVs has decreased and the number of USRVs are increasing, performance across Shippers for resolving USRVs varies significantly. It would appear that whilst some Shippers, including EDF Energy, are putting resources into resolving these USRVs and ensuring that their sites are reconciled correctly, other Shippers appear to be content to do nothing and sit on their USRVs. Whilst this ensures that their sites are never reconciled correctly, this will also have an impact on domestic customers, who will end up subsidising any under deemed site that is not reconciled due to an outstanding USRV.

We recognise EON’s intention to address aged USRVs through reconciliation proposal 141A, however we are concerned that without increasing the industry cap, this proposal whilst increasing the incentive for aged USRVs, actually weakens the current incentive for new USRVs. In particular we are aware that under proposal 141A the maximum £500 incentive would in fact be scaled down to £40. After scaling down this incentive is only slightly larger than the incentive under proposal 141, and so the benefits associated with modification proposal 141A would be further weakened. We would further note that under proposal 141A, there is a risk that a perverse incentive would be created to only resolve aged USRVs at the expense of newer USRVs, or to partially resolved aged USRVs with the intention of re-

classifying them as newer USRVs in an attempt to avoid the penalty charge associated with the older USRVs.

EDF Energy would also note that throughout discussions at the Distribution Workstream, concerns were expressed by Shippers that certain USRVs were irresolvable for numerous reasons, including meters and/or sites no longer being present, change of Shipper etc. Whilst xoserve did not believe that there were a significant number that were irresolvable, it would appear that an enduring regime needs to be developed to ensure that Shippers are not penalised for irresolvable USRVs. We note that this issue may be covered by discussion within modification review group 126, however a USRV specific proposal may also need to be developed.

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

Standard Special Condition A11.1 (d) the securing of effective competition (i) between relevant gas Shippers and (ii) between relevant suppliers: Implementation of modification proposal 141 would incentivise Users to resolve USRVs, whilst proposal 141A would incentivise Shippers to resolve aged USRVs, or to have them reclassified as new USRVs. However whether modification proposal 141A would actually incentivise Shippers to resolve more USRVs is unclear. However if by implementation of either proposal Users are incentivised to resolve more USRVs, then this will improve competition between gas Shippers. In particular RbD Shippers would have the confidence that they were being reconciled as accurately as possible through RbD, and not cross subsidising Shippers who were sitting on sites with USRVs that had been under deemed. Accurate energy allocation will ensure that costs are targeted at those Shippers who have incurred them which will be beneficial to competition.

10. Advantages

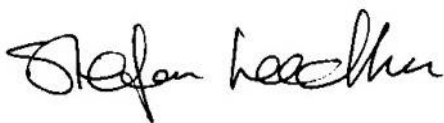
- By incentivising resolution of USRVs both proposals would ensure that costs are correctly targeted at the sites or sectors were they were imposed. This would be beneficial to competition and remove any cross subsidy between sectors. However the extent to which proposal 141A incentivises this behaviour could be questioned.

Disadvantages

- Modification 141A would place an incentive on Users to resolve older USRVs and weakens the incentive to resolve newer USRVs. This may not necessarily result in a decrease in the number of USRVs, especially if older USRVs are harder to resolve and Shippers do not employ additional resources to resolve these USRVs.
- Proposal 141A could be viewed as penal if it incentivises Users enough to significantly reduce the number of outstanding USRVs so that the full effect of the incentive was felt.

I hope you find these comments useful, however please contact me should you wish to discuss these further.

Yours sincerely



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