Bob Fletcher
UNC Panel Secretary
31 Homer Road
Solihull
West Midlands
B91 3LT

30 July 2010

Dear Bob

EDF Energy response to UNC Modification Proposal 0302: "RG 0252 Proposal 5: Definition of Regulatory Asset Value (RAV) when calculating Maximum Unsecured Credit".

EDF Energy welcomes the opportunity to respond to this UNC Modification Proposal. We support implementation of Modification Proposal 0302.

This proposal will place a requirement on Transporters to publish a RAV value updated to current prices, which will be used as a basis for determining a Users maximum unsecured credit limit. EDF Energy believes that this proposal will provide additional clarity to Users when calculating the maximum unsecured credit limit that they are entitled to and ensure that an up to date RAV value is used. In particular we would note that under the current regime the RAV is based on the figures published by Ofgem in their Final Proposals document for the relevant price control. For the GDNs this results in RAV being published in 2005/06 prices. Whilst this will have little impact at the start of the price control period, we would note that these figures are likely to be significantly outdated by the end of the price control period. For example based on figures from ONS for 2005 to 2009 RPI was 11.3%. For a Shipper with the highest credit rating this results in unsecured credit being restricted by £27m as a result of using 2005/06 prices for the GDNs only. Updating RAV to current prices will therefore ensure that an appropriate level of unsecured credit is extended to Shippers based on current prices.

Whilst we support the proposal we do however note that there are a couple of issues that should be addressed, although this could be facilitated outside of the UNC. In particular we note that:

- Under the proposal it is anticipated that the RAV is updated every April. It would be beneficial to identify how much notice Shippers would have of this proposed change? Whilst this may not be an issue when RPI is positive (and so RAV and unsecured credit limits are increasing) this could create an issue with negative RPI as recently experienced. This could potentially require Shippers to lodge additional credit and so it is important that they are given sufficient notice for this.
- It is proposed that the RAV values published by Ofgem are updated to "current prices". EDF Energy believes it would be beneficial were the Transporters to provide clarity on the

methodology that they will adopt for this. In particular we would note that RPI for 2009/10 is not finalised until after the end of this period, and so this could not be used. The most recent RPI published prior to 1 April every year could be used – suggesting that this would be based on the RPI up until January of the relevant year – although further clarity on this would be beneficial.

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

Yours sincerely

Rob Rome

Head of Transmission and Trading Arrangements
Corporate Policy and Regulation

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30 July 2010

Dear Bob

EDF Energy response to UNC Modification Proposal 0306: "RG 0252 Proposal 9: Administration of Shipper Credit Security Contact Details".

EDF Energy welcomes the opportunity to respond to this UNC Modification Proposal. Whilst EDF Energy supports the intent of this proposal, we believe that there are further issues that need to be addressed, and so we are only able to offer qualified support of this proposal.

EDF Energy believes that having a centralised list of Credit Security Contact details along with a requirement to ensure that these details are up to date will ensure that notifications are sent to the correct contacts an also make updating these details a simpler process as currently Shippers and Transporters have to notify numerous contacts of any amendments. However EDF Energy has the following concerns with this proposal:

- We do not believe that a UNC modification is required to facilitate this. In particular we would note that EDF Energy has historically raised the issue of notifying Transporters of a change to our 24 hour emergency contact details, with some Transporters providing numerous contacts to provide this up date to, and others providing none. Rather than raising a UNC proposal and obligation to facilitate this, this was resolved through gaining Transporter agreement to provide this information on a contact list – similar to that already employed by WWU. Given the importance of emergency contact details compared to Security Contact details we do not believe that this modification is proportionate.
- This proposal only places a requirement on Shippers and not on Transporters. In particular we would note that the independent GDNs are required to provide Security Contact details to National Grid. We would also note that EDF Energy recently had to update our security contact details, and whilst this was successful for the majority of Transporters we were unable to update one as it was unclear who should be updated. This resulted in a PCG lapsing and the relevant Transporter being unable to contact the correct individual in EDF Energy. Given that the issue appears to focus not only on Shippers providing up to date details, but also Transporters we do not believe that a one sided arrangement is appropriate.
- Maintenance of a contact list. Recently arrangements were put in place for the Transporters Agency to maintain and ensure that the list of emergency Shipper contacts were up to date.

We would note that this was facilitated without a UNC proposal, despite the importance of these details. However whilst we supported this arrangement in principle EDF Energy has been concerned that additional contacts were added to this list, and at one point the registered contact was removed from the list without any amendments from ourselves. Given the importance of the emergency contact list, we remain to be convinced that suitable controls and arrangements will be in place in the future to prevent erroneous updates being made to the security contact details proposed by this modification.

Therefore whilst EDF Energy supports the intent of this proposal, we are only able to offer qualified support as we believe that there are more appropriate solutions that could be implemented.

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

Yours sincerely

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30 July 2010

Dear Bob

EDF Energy response to UNC Modification Proposal 0310: "RG 0252 Proposal 13: removal of DNO Users from UNC TPD V3.3.4".

EDF Energy welcomes the opportunity to respond to this UNC Modification Proposal. We support implementation of Modification Proposal 0310.

As recognised by this proposal modification 0195AV will introduce requirements on all Users who book NTS Exit capacity to have sufficient credit in place to cover their next 12 months of NTS exit capacity bookings in addition to the current VaR calculations contained in the UNC. This will start to take effect from 1 October 2011 in preparation for the enduring exit regime taking full effect from 1 October 2012. Whilst this requirement was taken straight from the entry regime, EDF Energy agrees with the proposer that it is not appropriate to place similar requirements on GDNs.

In particular we note that NTS Exit capacity bookings made by the GDNs are required to ensure that capacity is available for the delivery of gas to end consumers. As such were a GDN to "fail" then arrangements are already in place from Ofgem for another Transporter to be appointed to take over their obligations and run the network on their behalf. This is similar to Supplier of Last Resort arrangements and is designed to ensure that gas supplies to end consumers are maintained in the event of a company failure. It would therefore appear that future capacity bookings will be honoured as these are required to support gas delivery to end consumers. We therefore do not believe that there is any risk associated with these long term bookings and so it would be inappropriate for the GDNs to lodge credit to cover these. Implementation of this proposal should therefore ensure that inefficient costs are not placed on Transporters and so ultimately consumers.

We would also note that as part of their undertakings Ofgem requires all network owners to maintain an investment grade credit rating with Ofgem publishing guidance on "appropriate" gearing levels to ensure that this is maintained. Given this level of scrutiny EDF Energy believes that the risk of a GDN "failing" is limited and so securing the next 12 months of exit capacity bookings is inappropriate.

In relation to the particular sections of the modification report 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 agrees with the proposer that in theory implementation of this proposal will avoid the GDNs having to lodge credit to cover the next 12 months of NTS Exit capacity bookings. Were this to require the lodging of a Letter of Credit or deposit deed, this would come at a cost which would be inefficient for the reasons listed above. However EDF Energy has not been able to assess the materiality of this benefit. In particular we would note that if the majority of these bookings were to be covered by unsecured credit, then the cost and impact of not implementing this proposal would be marginal. We therefore do not believe that the GDNs have sufficiently demonstrated the benefit of this proposal to judge the extent to which it facilitates this relevant objective.

Standard Special Condition A11.1 (f): so far as is consistent with subparagraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;
EDF Energy disagrees with the proposer that implementing this proposal would ensure that the same credit arrangements were applied to Shippers by iDNs and NGD. Currently the UNC does not differentiate between credit requirements on iDNs compared to NGD, with the same arrangements applying regardless of the GDN owner. We therefore do not believe a two tier credit regime currently exists, and so this proposal will have no impact on this relevant objective.

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

Yours sincerely

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Dear Bob

EDF Energy response to UNC Modification Proposal 0311: "RG 0252 Proposal 13a: Removal of DNOs as Users from UNC TPD V3 and V4".

EDF Energy welcomes the opportunity to respond to this UNC Modification Proposal. We do not support implementation of Modification Proposal 0311.

Whilst this proposal is similar (and arguably an alternate to 0310) we would note that it goes further than 0310 in that it removes DNOs as Users from section V3 and V4. This would mean that DNOs would not have to lodge any credit to cover the NTS Exit capacity bookings that they had utilised or the DNO Pension charges. Whilst we agree with the proposers of both modifications that it is not appropriate to require GDNs to secure their NTS Exit capacity bookings 12 months in advance, we do not believe that it is appropriate to remove the GDNs from all the credit requirements in V3 and V4.

As noted in our response to 0310, modification proposal 0195AV introduced requirements on all Users who book NTS Exit capacity to have sufficient credit in place to cover their next 12 months of NTS exit capacity bookings in addition to the current VaR calculations contained in the UNC. This will start to take effect from 1 October 2011 in preparation for the enduring exit regime taking full effect from 1 October 2012. Whilst this requirement was taken straight from the entry regime, EDF Energy agrees with the proposer that it is not appropriate to place similar requirements on GDNs.

In particular we note that NTS Exit capacity bookings made by the GDNs are required to ensure that capacity is available for the delivery of gas to end consumers. As such were a GDN to "fail" then arrangements are already in place from Ofgem for another Transporter to be appointed to take over their obligations and run the network on their behalf. This is similar to Supplier of Last Resort arrangements and is designed to ensure that gas supplies to end consumers are maintained in the event of a company failure. It would therefore appear that future capacity bookings will be honoured as these are required to support gas delivery to end consumers. We therefore do not believe that there is any risk associated with these long term bookings and so it would be inappropriate for the GDNs to lodge credit to cover these. Implementation of this proposal should therefore ensure that inefficient costs are not placed on Transporters and so ultimately consumers.

We would also note that as part of their undertakings Ofgem requires all network owners to maintain an investment grade credit rating with Ofgem publishing guidance on "appropriate" gearing levels to ensure that this is maintained. Given this level of scrutiny EDF Energy believes that the risk of a GDN "failing" is limited and so securing the next 12 months of exit capacity bookings is inappropriate.

However we would note that although the risk of failure may be small, we do not believe sufficient arguments have been made as to why GDNs should be removed from all sections of V3 and V4. EDF Energy believes that it is appropriate that all Users should have sufficient credit in place to cover their NTS Exit capacity that they have utilised, which is achieved through the VaR calculations. The use of an unsecured credit limit for this is appropriate and ensures that the credit requirements placed on all Users reflects the risk posed by these Users. We note that from NGG NTS' response to proposals 0310 and 0311 that as the GDNs' have a credit grade rating then their current unsecured credit limits are sufficient to meet the existing UNC requirements prior to 1 October 2011. EDF Energy therefore believes that there are no benefits from implementing this change. We would note that this differentiation between 0310 and 0311 is important, as in our view in the event of failure and another Transporter being appointed to operate the network the future NTS Exit bookings are likely to be honoured. However we do not believe that historical capacity utilisation will be honoured, exposing Shippers to this cost. It is therefore appropriate that the current arrangements are maintained.

In relation to the particular sections of the modification report 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;
As noted in our response to 0310 EDF Energy agrees with the proposer that in theory implementation of this proposal will avoid the GDNs having to lodge credit to cover the next 12 months of NTS Exit capacity bookings. Were this to require the lodging of a Letter of Credit or deposit deed, this would come at a cost which would be inefficient for the reasons listed above. However EDF Energy has not been able to assess the materiality of this benefit as only WWU have identified the additional security that they would be required to lodge. EDF Energy would note that for WWU they have identified that without implementation of 0310 they will be required to securitize an additional £45m. From Ofgem's Impact Assessment into UNC proposals 0246, 0246A and 0246B a Letter of Credit costs in the region of 1-3% depending on the credit rating of the company. This therefore equates to an increase in costs of between £450,000 to £1.35m per annum, or 0.17% to 0.51% of WWU's average allowed revenue. Based on these figures it would appear that failure to implement this proposal will not have a material impact on WWU's revenues. For the other GDNs who have not provided indicative figures, we would note that if the majority of these bookings were to be covered by unsecured credit, then the cost and impact of not implementing this proposal would be even more marginal.

In addition we would note that this proposal goes further than 0310 and removes all of the credit requirements on GDNs covered by V3 and V4. None of the GDNs have indicated what the costs of the current regime are, and so the benefit of implementation of this proposal over 0310. It would appear reasonable to assume from WWU's figures, which is further supported by the figures provided in NGG NTS' response, that currently the GDNs have sufficient unsecured credit to cover their existing requirements in which case there is no benefit from implementing this proposal in addition to that derived from 0310.

Standard Special Condition A11.1 (f): so far as is consistent with subparagraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;
EDF Energy disagrees with the proposer that implementing this proposal would ensure that the same credit arrangements were applied to Shippers by iDNs and NGD. Currently the UNC does not differentiate between credit requirements on iDNs compared to NGD, with the same arrangements applying regardless of the GDN owner. We therefore do not believe a two tier credit regime currently exists, and so this proposal will have no impact on this relevant objective.

6. **The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal**
EDF Energy notes that the proposer appears to believe that this proposal will have the same level of contractual risk to Transporters as 0310. We believe that this proposal increases the risk to National Grid as it increases the capacity that is not subject to credit terms under the UNC. We therefore believe that this proposal has a worse impact on contract risk than 0310.

8. **The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk**
EDF Energy believes that this proposal will increase the level of contractual risk on Shippers in the event of network failure if National Grid chooses to recover any unsecured debt from Shippers rather than GDNs.

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

Yours sincerely

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