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Dear Julian

EDF Energy Response to UNC Modification 0117 - "Amendment to Invoice Billing Period".

EDF Energy welcomes the opportunity to respond to this proposal, and as Proposer believes that it should be implemented as it better facilitates the relevant objectives of the UNC whilst facilitating Gas Transporters (GT's) relevant licence objectives.

This proposal has been raised to bring clarity and certainty to the question of how far back reconciliations can be made under the UNC. It is apparent from recent industry discussions that the position is far from clear. Certain GTs have expressed the position that reconciliations can go back for an unlimited period based on current market shares. This leads to inappropriate cost targeting and non-cost reflective results. We do not agree that the relevant provisions of the UNC either intend or permit this. However, given the different views and possible interpretation that could be put upon the relevant provisions, it is clear to us that this issue should be clarified urgently. In the absence of further modifications which may better facilitate the relevant objectives, and taking into account there may be other large historical meter errors as yet unidentified, we believe this proposal should be implemented immediately as an improvement to current UNC arrangements for the following reasons:

- provides clarity and certainty with regard to the position of reconciliation and invoice billing periods,
- incentivises both GTs and Users to provide more accurate meter information leading to more efficient invoicing by exposing parties to financial risks of foregone revenues arising from erroneous meter readings,
- minimises risks on Users by targeting costs at those which are best placed to manage them,
- facilitates and improves competition through appropriate cost targeting between shippers by limiting invoices to periods where Users are likely to have used the gas
- removes barriers to entry for new market participants who on GT's view get a smear of historical costs based on current market shares,

- improves the accuracy of gas flow data necessary to manage the UK NTS by incentivising GTs to ensure timely validation of meters under Section D of the Offtake Arrangements Document and
- improves UK Gas security of supply as balancing actions and investment decisions will be based on accurate measurement of gas flows.

Main body

EDF Energy continues to believe that by aligning the UNC with the current Billing Code that Users responsible for meters will be provided with an incentive to ensure that their meters are accurate, and read promptly. We recognise that the proposed twenty-six (26) month period is not perfectly aligned with the current Billing Code; however this is in response to concerns that the UNC requires certain meter readings to be carried out within 24 months. There was therefore a concern that a meter read could take place towards the end of this period, but would fail to be reflected on an invoice if a two year limitation was applied. We believe that initiating a twenty-six month limit will overcome this issue, and provide an additional incentive on Shippers to ensure that their meters are read on time, with the risk that they will not recover any monies owed through the reconciliation process if they miss the twenty six month deadline. We would note that this incentive will complement Transportation Principal Document (TPD) Section M 3.5.2 which requires Users to secure readings every 12 months for at least 90% of their Annual Read Meters that consume greater than 2,500 therms a year, or for at least 70% of their Annual Read Meters that consume less than 2,500 therms a year. This would therefore also appear to facilitate Standard Special Condition (SSC) A11.1 (f) – the promotion of efficiency in the implementation and administration of the UNC. EDF Energy would further note that on numerous occasions we have requested details from Xoserve as to the number of Large Supply Point (LSP) meters that have not had meter reads for a period of greater than two years, in order to assess the materiality of this issue; however this information has not been forthcoming.

EDF Energy continues to maintain that this modification should only impact on the period that invoices can be raised for, and not the processes that support these invoices. We believe that this will provide an incentive on Users and Transporters to ensure that their meter reading equipment is accurate whilst ensuring that the necessary processes are maintained so that invoices are accurate and correctly targeted. We have also applied this objective to the treatment of Suppressed Reconciliations, to ensure that there are no unintended consequences of this modification. We would note that TPD Section E 8.3.2 requires Users to use all reasonable endeavours to ensure that no less than 50% of User Suppressed Reconciliations are not suppressed in the month immediately following suppression. By allowing invoices to go back twenty six months from the date that the read was suppressed we believe that this will maintain an incentive to comply with this section of the code and so facilitate SSC A11.1 (f) - the promotion of efficiency in the implementation and administration of the UNC. Again EDF Energy would note that we have approached Xoserve to establish the quantity of Suppressed Reconciliations that are not resolved within the twenty six month window, in order to establish the materiality of this issue when implementing our proposal; however we are still waiting for this information.

Extent to which the Proposal will better facilitate the achievement of the Relevant Objectives of the Gas Transporters Licence

As indicated above, there are different views as to how far back reconciliations can go under current UNC rules. Clarifying this by expressly limiting the period that GTs can raise invoices for to no more than 26 months would ensure that there is a clear incentive to maintain and validate the accuracy of their meters or face the risk that they would forego revenue. By encouraging meter accuracy, Transporters would also be better placed to identify the flows that are occurring on their system and undertake balancing actions reflective of these flows. Further they would be able to

configure their system to ensure that they operated their compressors as efficiently as possible and transported gas to where it was required. This would thereby facilitate achievement of relevant objective A11.1 (a) – the efficient and economic operation of the pipeline system.

Under the current UNC Gas Distribution Networks (GDNs) book flat and flexibility capacity based on the views of their future gas flows, with both GDNs and National Grid Gas (NGG) undertaking investments based on these flows. These forecasts will be based on the current flows and operations of their systems, derived from their meters. If these meters are not accurate there is a risk that capacity is overbooked and uneconomic and inefficient investment is undertaken, as perceived flows are based on an erroneous view of the current systems. Encouraging meter accuracy will therefore aid investment decisions and so facilitate the achievement of SSC A11.1 (b) – the coordinated, efficient and economic operation of (i) the combined pipeline system and (ii) the pipeline system of one or more other relevant gas transporters.

In addition to the risk that insufficient investment is undertaken as a result of a meter under recording flows, there is the additional risk that an inaccurate view of the supply/demand balance is formed. This could have serious implications for security of supply, with Shippers attempting to balance against an inaccurate view of demand, NGG failing to undertake balancing actions when required, and a system unable to accommodate flows as it has been developed based on a misconceived view of demand. Encouraging meter accuracy would thereby overcome these issues and have a beneficial impact on security of supply, thereby facilitating SSC A11.1 (c) – the efficient discharge of the licensee's obligations under their licence in relation to security of supply.

Effective cost targeting and facilitating competition

EDF Energy further believes that implementation of this modification proposal would further facilitate achievement of SSC A11.1 (d) – the securing of effective competition (i) between relevant Shippers and (ii) between relevant suppliers. Under the current UNC National Grid appear to believe believes that a reconciliation can be performed for any period after 1 February 1998, with costs recovered from Shippers based on their current market share of Small Supply Points (SSPs) in the LDZ impacted. For reconciliations that span a significant period this would have the effect of targeting costs at those who were currently active, regardless of whether they had realised the benefit of supplying that gas or not, creating a barrier to entry. Clarifying the position by expressly stating a twenty six month limit, it is likely that invoices applied to Shippers will be more reflective of their actual holdings. This should help ensure that costs are targeted at those Shippers who have accrued them, and so encourage effective competition between Shippers. This will further ensure that costs are not passed on to suppliers, and so encourage competition amongst suppliers. For example, the way the current UNC rules are being interpreted it is worth noting that Users could face an exposure to Reconciliation by Difference (RbD) invoices despite not being Shippers during the period the invoice covers. We therefore believe that this proposal would meet Ofgem's principles of targeting costs at those who incur them, minimising the financial risks to Users and the potential of cross subsidies from one part of the market to another.

Incentivising meter accuracy

We would further note that to the extent the current UNC does not incentivise meter accuracy, there is a risk that Shippers will be adequately balancing their

position against NGG's inaccurate view of demand. Whilst different Shippers will have different strategies for meeting the demand of domestic customers, it is unlikely that any Shipper will have made arrangements for the eventuality that NGG's view of demand on any day is different from actual demand, primarily because they are incentivised to balance against NGG's view of demand. EDF Energy therefore believes that implementation of this proposal will have a positive impact on SSC A11.1 (e) the provision of reasonable incentives for relevant suppliers to secure that the domestic gas supply standards are satisfied as respects the availability of gas to their domestic consumers. This is because Users and Transporters will be incentivised to ensure meter accuracy, providing NGG with a more accurate view of demand, with Shippers incentivised to balance against this view.

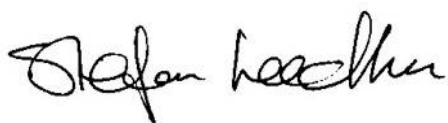
As already stated EDF Energy believes that implementation of our modification proposal would facilitate SSC A11.1 (f) – the promotion of efficiency in the implementation and administration of the UNC. This is achieved by encouraging Users to undertake meter reads and submit them within a twenty-six month window, thereby facilitating TPD Section M 3.5.1 & 3.5.2. We would further note that implementation of our proposal would ensure that adequate incentives are in place to ensure that Transporters meet the requirements laid down in Offtake Agreement Document Section D2. EDF Energy would note that there have been many historic instances where Transporters have failed to maintain accurate meters under the UNC.

Implementation timeline

EDF Energy would further note that following Ofgem's decision on granting this proposal urgent status, we have discussed this modification proposal at the Transmission Workstream on 5th October 2006, and more fully at the Distribution Workstream on 26th October 2006, in line with Ofgem's suggestions. Following these discussions we have varied our modification proposal in order to overcome some of the perceived issues associated with our proposal, and have discussed these earlier in our response. We continue to be aware that certain Transporters and Xserve are concerned with the implementation date of this proposal, and whether it is achievable. We remain to be convinced about these concerns however we have also proposed that should Ofgem decide to implement this modification proposal, it should be implemented on a phased approach, with those invoices that require the least amount of system change to be impacted first. We believe that in many cases the amount of system change will be relatively minimal, as it is the invoicing period which is being changed, rather than the underlying systems and processes. We would hope that in reaching achievable implementation dates that Ofgem requires the relevant parties to clearly demonstrate why implementation prior to these dates is not possible.

I hope you find these comments useful, but please do not hesitate to contact either John Costa on 0207 752 2522 or myself on the number below should you wish to discuss these comments further.

Yours sincerely

A handwritten signature in black ink that reads "Stefan Leedham".

Stefan Leedham



Gas Market Analyst
Energy Market Strategy, Energy Branch.