Julian Majdanski
UNC Panel Secretary
31 Homer Road
Solihull
West Midlands
B91 3LT

12 August 2008

Dear Julian

EDF Energy Response to UNC Modification Proposals 0192: "Introduction of DNO obligations to facilitate resolution of unresolved USRVs".

EDF Energy welcomes the opportunity to respond to this consultation; however we are opposed to this proposal at this stage.

As a principle we support the intention of this proposal to ensure that unresolved USRVs do not fall away with the impact of 0152V every year, creating a perverse incentive on Shippers. By introducing these arrangements a mechanism will be put in place, placing an obligation on GDNs to resolve resolvable USRVs and so ensure that costs are correctly targeted. This in turn would be beneficial to competition between Shippers as energy and transportation charges would be more accurately allocated.

However this reform is now being undertaken under the auspices of User Pays which was introduced as part of the 2008-13 Gas Distribution Price Control review (GDPCR). As noted by Ofgem in the GDPCR Final Conclusions document:

> "For this revised funding arrangement to be effective in promoting the introduction of services between price control reviews, the parties need to be able to agree how much the service should cost, and who should bear the cost associated with the service. In particular, there need to be contractual arrangements to support these services."

Whilst this proposal does include some indicative charges in section 4c, we would note that these charges have been presented to the industry as a fait accomplish, with little, if any explanation as to how they were derived. This therefore appears inconsistent with the intention of Ofgem's decision in the GDPCR.

Further we would note that the charges developed by the GDNs in section 4c have apparently been developed in accordance with the Agency Charging Statement (ACS) as agreed by Ofgem. The ACS in turn relies upon an Activity Cost Base (ACB) to identify how costs are apportioned within xoserve. Section 4 of the ACB summarises the methodology as:

> "The ACB methodology developed for xoserve ensures that costs are allocated to activities using the most appropriate drivers:

EDF Energy
2nd Floor
Cardinal place
80 Victoria Street
London SW1E 5JL

Tel +44 (0) 203 126 2312
Fax +44 (0) 20 3 126 2364

edfenergy.com

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- Where possible, resource costs being allocated in proportion to time taken to complete activities.
- If a non staff or bought in service cost is incurred in the delivery of one or more service lines then the cost is allocated directly to the relevant service lines only.
- The cost of applications is driven to service lines based on advice from appropriate experts from within xoserve. "

Central to this entire ACB Methodology is the use of Time in Motion analysis to identify how costs are attributed, as recognised in Section 3.1.1 of the ACB:

> "xoserve uses a well established system to record time taken against activities. The activity codes from this system have been mapped to the most appropriate ASA service lines. Costs are allocated to service lines in proportion to the amount of resource used to complete the activity. Direct staff numbers are used to drive Salary and Associated Costs whilst Agency numbers are used to drive Agency costs. "

Whilst this methodology is acceptable for existing service lines which the ACS covers, we would note that it is not applicable to new service lines, which 0192 would introduce. We would therefore question how these charges have been constructed and whether they are consistent with the ACS? This issue was recognised by the Distribution Workstream on 26 June 2008, when it was noted that it would be beneficial for the modification proposal and ACS change process to run in parallel. We would further note that during the User Pays Implementation Group (UPIG) meetings Ofgem noted that they had not included a requirement to consult on ACS changes as part of the A15 Licence Condition as it was their intention that this consultation would be conducted through the UNC Consultation process.

Finally we would note that in accepting the ACS Ofgem placed a requirement on xoserve to review the ACS by no later than 01 October 2008 to:

- "give greater clarity in the charging methodology to the process by which it derives and keeps up to date forecast demand forecast; and
- amend the Charging Statement to better illustrate the relationship between total costs, forecast demand and actual charges."

However in the DMR there is no explanation or view as to the forecast demand levels, nor is there any explanation as to how these demand levels, total costs and actual charges are interrelated. This is in stark contrast to Elexon, where for every BSC amendment presented to Ofgem for a decision there is a full break down of costs and explanations, providing transparency to both the industry and Ofgem. It would therefore appear that the charges within DMR 0192 are not consistent with the ACS , do not meet the Authority's requirements when approving the current ACS and fail to reflect Ofgem's intentions when introducing User Pays as part of the GDPCR and the subsequent Licence Condition Drafting. We are therefore unable to support this proposal until these charging issues are resolved.

In relation to the specific areas of the DMR EDF Energy would make the following comments:

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

Standard Special Condition A11.1 (c): so far as is consistent with sub-paragraphs (a) to (b), the efficient discharge of the licensee's obligations under this licence;
Standard Special Condition A15.11 requires the GDNs to ensure that the charges included in the ACS are cost reflective. As noted above the ACS is derived using an ACB methodology

which relies heavily upon a time in motion analysis for the apportionment of costs. However this methodology can not be applied to new service lines as they would be unable to conduct any time in motion analysis, yet the GDNs have indicated that the charges presented in the DMR are consistent with the ACS. It is therefore not clear whether the charges are cost reflective, potentially making this proposal inconsistent with SSC A15.11.

Standard Special Condition A11.1 (d): so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition between relevant Shippers.
Implementing this proposal should encourage the correct allocation of energy and transportation charges by ensuring that USRVs do not fall away as a result of 0152V. This would promote competition.

However the fact that the indicative charges included in the DMR are indicative creates a risk to Shippers. It would appear likely that these charges will change as the current ACS is incompatible with new service lines. This risk will have to be incorporated into Shippers' processes which would be detrimental to competition. However we believe that the correct allocation of energy will outweigh this risk, especially in light of the current high commodity prices.

10. **Analysis of any advantages or disadvantages of implementation of the Modification Proposal**
Disadvantages
Inconsistent with Ofgem's decision in the GDPCR
Inconsistent with Ofgem's intentions for SSC A15
Inconsistent with SSC A15.11
Inconsistent with Ofgem's decision in accepting the ACS
Not consistent with the current ACS methodology
Lack of transparency behind the indicative charges
Introduces a risk to shippers that indicative charges may change

I hope you find these comments useful, however please contact my colleague Stefan Leedham (Stefan.leedham@edfenergy.com, 0203 126 2312) if you wish to discuss this response further.

Yours sincerely

Dr. Sebastian Eyre
Energy Regulation, Energy Branch