

Julian Majdanski  
UNC Panel Secretary  
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05 April 2008

Dear Julian

**EDF Energy Response to UNC Modification Proposals 0203V: “Revision to DN Shrinkage Regime.”**

EDF Energy welcomes the opportunity to respond to this consultation; however we do not support implementation of modification proposal 0203V.

Whilst we recognise that the GDPCR has set a fixed volumetric allowance as part of the Gas Distribution Price Control (GDPCR) for 1 October 2008 to 31 March 2013 it has not required a change to the UNC to support this. In particular we would note that the GDPCR sets the financial allowances for the GDNs, and created an incentive regime for the GDNs to encourage them to procure their shrinkage requirements in as economic and efficient manner as possible. Whilst this regime is now based upon a fixed volumetric allowance for shrinkage, the GDPCR has not changed the volume of shrinkage that the GDNs will procure. In fact we would note that in the GDPCR Final Proposals document, Ofgem note in paragraph 7.21 that:

“The volume of shrinkage gas purchased by the GDNs is determined by the UNC.  
The GDNs have indicated that they intend to propose modifications to UNC”

Currently the volume of shrinkage is determined by the shrinkage model as detailed within the UNC, which then impacts on the allocation of gas to Shippers. We continue to be unclear why this is required to be changed, and can see no requirements either within the GDPCR or within Standard Special Condition E8 that requires the GDNs to raise this proposal to change the UNC. In addition we would note that the Shrinkage Forum has not had the opportunity to discuss this proposal, and yet this forum is responsible for discussing shrinkage issues and proposals to change the model. We believe that it would have been more appropriate to have had a full discussion of this proposal at the shrinkage forum where the appropriate experts could have been present.

In addition to the comments raised in the draft modification report, EDF Energy would make the following observations:

**2. 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 pipeline system to which this licence relates:**

We would note that this proposal is currently out for consultation, and so Ofgem has not decided whether to implement this proposal or not. However the proposal notes that “These changes are being progressed under a xoserve Change Order”. This would not appear to be economic and efficient as the GDNs appear to have instructed xoserve to commence work that may not be required if the UNC proposal is rejected.

**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.**

The Modification Proposer has stated that this proposal would facilitate the achievement of this objective, and appears to suggest that the relevant Licence Condition is Standard Special Condition E8. The text of this condition is specific to each GDN, however an example can be found by following [this link](#). SSC E8 is solely concerned with the cost allowance for shrinkage, and does not stipulate that the GDNs will be required to procure a fixed volume. It is therefore not clear what licence condition this proposal facilitates. In addition SSC E8 stipulates the volumetric allowance for each GDN which will be used to calculate allowed revenue; however this proposal does not introduce this volumetric allowance into the UNC. It therefore does not align the UNC with SSC E8.

**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:**

It would appear that implementation of this proposal will impact on the allocation of gas to Shippers. If there is a mis-allocation of gas as a result of this proposal then this will increase the costs to gas Shippers and so be seen to be detrimental to competition.

**7. The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk**

There will be an increase in costs to Shippers who will have to change their systems and processes to reflect the new shrinkage arrangements. In addition if this results in an erroneous increase in shrinkage allocated to Shippers then this will increase their costs and contractual risks.

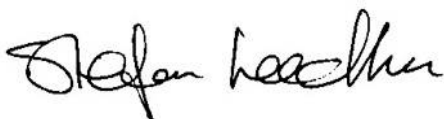
**10. The Analysis of any advantages or disadvantages of implementation of the Modification Proposal**

**Disadvantages**

- Could result in the mis-allocation of energy between Shippers
- Unclear from the proposal which Licence Obligation this proposal is aligning the UNC with.
- Translates a revenue allowance into a contractual obligation with Shippers
- Potentially negative interactions with a GDPCR Incentive scheme
- Reduces transparency of information to Shippers on shrinkage.

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

Yours sincerely

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

Stefan Leedham  
Gas Market Analyst  
Energy Regulation, Energy Branch