EDF Trading

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Dear Julian

Response to UNC Modification Proposals 0210: "Implementation of DNPC03 (LDZ System Charges – Capacity/Commodity Split and Interruptible Discounts), the Alignment of Failure to Interrupt Charges and the Alignment of the IFA Charge"

EDF Trading welcomes the opportunity to respond to this consultation; we do not support implementation of modification proposal 0210.

This modification proposal enables the DNs to charge in accordance with DNPC03, such that an interruptible supply point connected within a DN could now be charged LDZ Capacity Charges. Whilst it is clear that there was significant debate around the DNPC03 proposal and the effects that such a change to the charging regime would make to the majority of loads, we do not believe that the needs of storage sites (which typically have a low load factor) were sufficiently taken into account in the development of this charging proposal. Hence we are urging Ofgem to reject implementation of this modification proposal, so that further consideration can be given to storage sites and only after that point should any changes necessary be made to the UNC to enact any such proposal.

Storage sites connected to a DN currently elect to be interruptible (as do their counterparts on the NTS) and hence only pay a commodity element under the current charging regime. The change proposed by DNPC03 effectively means that there will now be a different treatment for storage sites connected to a DN and those connected to the NTS until at least October 2012, but potentially longer, pending the results of exit reform on the NTS. This will lead to existing facilities effectively being 'priced out of the market' with comparison to their NTS equivalents and will additionally send a signal to any future storage site considering connecting to a DN that it may no longer be the economic choice for them to make. This could lead to perversities such that uneconomic investments are undertaken on the wider system purely due to an unintended consequence of a pricing methodology. This cannot be in the interests of GB consumers.

There has been considerable debate around the role of storage sites (primarily on the NTS, but we believe is directly applicable to any connected to a DN) and to the benefits that such sites deliver to the system in general. We believe that this benefit has not been recognized within the DNPC03 pricing consultation and consequently that storage sites should be treated differently to a more standard exit point as there patterns of utilization are different such that they will not, in general, be exiting gas from the system on the peak day.

Indeed, the NTS recognized the principle that storage sites are different to other exit points and consequently proposed a different commodity charge rate to apply at storage sites, as storage can effectively be thought of as being part of the wider system and hence should avoid charges placed on users of the system at system points that physically flow gas into and out of the system. The thinking behind this is that storage of gas can be thought of as 'temporary parking of gas' in the supply chain, such that the gas would ultimately be delivered to end consumers but at a later date to when it entered the system – hence it is appropriate that certain charges should not be levied on these type of facilities as they are already paid at the points where the gas physically enters or leaves the system.

Storage within a DN can provide an alternative to taking gas off the NTS. Under the current exit arrangements, DNs book their exit capacity requirements from the NTS for both NTS Offtake (Flat) capacity and NTS Offtake (Flexibility) capacity through the OCS (Offtake Capacity Statements) process (an annual process undertaken each June/July under the UNC). However, it should be recognized that DNs do not currently pay for any such capacity (this may well change with NTS exit reform, but would only apply to capacity from October 2012 onwards in any case). Whilst there is an incentive mechanism within each DNs' GT licence relating to its booking of such capacity, it is debatable whether this provides a strong enough incentive for the DN to properly consider the trade-offs it could make and the value that any such storage site could provide to it as an alternative to procuring capacity from the NTS.

Additionally, it should be recognized that under the recent changes to the DNs' GT licences implemented through the GDPCR process, from April 2011, Ofgem has removed the element which related to the DN concerning its future bookings of the NTS Offtake (Flexibility) capacity product from its exit incentive and allowed it to pass through any costs incurred for such capacity directly to end consumers. This means that there will be even less incentive on any DN to properly consider the value that any embedded storage site could provide to it.

In summary, we do not support the implementation of modification proposal 0210 and we hope Ofgem will take into account these considerations when making its decision. Please contact Cemil Altin on 020 70614386 or on email at cemil.altin@edftrading.com if you wish to discuss this response further.

Yours sincerely

CAlti

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