



John Bradley
UNC Panel Secretary
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Dear John

EDF Energy Response to UNC Modification Proposals 0218: “Amendment to the base period used to define Seasonal Normal Weather”.

EDF Energy welcomes the opportunity to respond to this consultation; we support implementation of modification proposal 0218.

EDF Energy is aware of the work that the Hadley Centre and Met Office has undertaken in recent years regarding the impact of climate change of Seasonal Normal Weather (SNW). In fact EDF Energy has been using the output of this study for our own view of SNW and in our demand estimation models. Our own internal analysis has found that this view of SNW is more accurate than the view currently held by the Gas Transporters (GTs) and that the GTs are currently over forecasting demand. We believe that one of the driving forces behind this over forecast is the use of an inaccurate view of SNW within the models.

However EDF Energy is disappointed that the modification proposal does not require the GTs to use this data. In our opinion the model produced by the Hadley Centre and Met Office is the best and most accurate model that is available at this point of time; produced by the recognised leaders in this area. We would therefore question why there should be an option to not choose the most accurate model?

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 (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 A5 of the GDN and NTS Licences requires the Transporters to develop a charging methodology so that “compliance with the charging methodology results in charges which reflect the costs incurred by the Licensee in its Transportation business.” NDM commodity charges (both NTS and GDN) are determined using the initial demand allocation that is impacted by the SNCWV. A more accurate SNCWV should result in a more accurate allocation of demand at D+5, and so more accurate commodity charges for NDM sites. This proposal would therefore help to facilitate this relevant condition.

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:

Under the current arrangements Shippers are incentivised to balance their position against the GT's demand forecast. This is finalised at D+5 allocation and then corrected through RbD. Any changes to this initial allocation are at SAP, which presents Shippers with an unmanageable risk. EDF Energy has evidence that the GTs are over forecasting demand, which we believe is due to their view of SNW. Movement to a more accurate SNW should result in a more accurate demand forecast and initial allocation. This should reduce risks to Shippers, removing a barrier to entry and so promoting competition. In addition if RbD is viewed as a cost to Shippers, then decreasing the size of RbD will decrease Shippers' costs which should also be beneficial to competition.

Standard Special Condition A11.1 (f): so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code:

Restricting the GTS to an inaccurate view of SNW can not be viewed as efficient, and so by opening up the UNC to allow GTs to choose the most accurate view of SNW could be viewed as more efficient. We would also note that this mod does not restrict the model adopted and so should avoid the requirement for future UNC changes should even more accurate models be developed in the future. However we remain concerned that the proposal does not stipulate the use of the most accurate model when developing SNW for the next 5 year period.

4. The implications for Transporters and each Transporter of implementing the Modification Proposal, including:

b) Development and capital cost and operating cost implications:

The workstream report suggests that as this proposal introduces the option for the GTs to utilise other data sources, then there may be a cost associated with this. EDF Energy would hope that the GTs would only use other data sources if they were more accurate, and so it appears odd to argue against the use of more accurate data because of costs. In addition we would note that it has been agreed that the outputs from the Met Office/Hadley Centre study would be available to the GTs at a zero cost, we would therefore struggle to understand how this would add to costs. We would also question what additional data sources the GTs are aware of that are more accurate than those developed by the Met Office/Hadley Centre.

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

Development and capital cost and operational cost implications

The operation of the RbD mechanism creates a cost to EDF Energy. By improving the initial allocation, Shippers should benefit from reduced costs and also reduced RbD forecasting costs as final allocation should be closer to our D+5 allocation forecast.

Consequence for the level of contractual risk of Users

As previously noted EDF Energy is balanced and allocated energy, and transportation charges, at D+5 based on GTs' forecasts. Any imbalance is cashed out at SMP, and so Shippers are incentivised to balance against the GTs' forecasts and so have to purchase gas at market prices. However this initial allocation is "corrected" through RbD which is cashed out at SAP. There is therefore a risk in the UNC that SAP differs from SMP or the market price which gas was purchased for, and Shippers are unable to hedge against this risk. By improving initial allocation the size of RbD and so this risk is reduced.

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

Advantages

- By improving initial allocation reduces Shippers' risk from differences between SAP and market prices or SMP.
- Provides sufficient flexibility to Transporters to adopt an even more accurate model at the time of the next review should one exist.

Disadvantages

- Does not stipulate the use of the most accurate model for the next 5 year period.

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

A handwritten signature in blue ink, appearing to read "Seb Eyre".

Dr. Sebastian Eyre
Energy Regulation, Energy Branch