John Bradley
UNC Panel Secretary
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08 June 2009

Dear John

EDF Energy Response to UNC Modification Proposal 0224: "Facilitating the use of AMR in the Daily Metered Elective Regime".

EDF Energy welcomes the opportunity to respond to the UNC Modification Proposals. We do not support implementation of 0224.

The intent of UNC Modification Proposal 0224 is to facilitate the use of AMR equipment for I&C consumers. EDF Energy fully supports this and believes that there are several barriers to the UNC that should be removed to facilitate this. However we have 3 fundamental concerns with 0224 that prevent us from supporting it:

1. **Model Proposed closes the market to several participants.** It is EDF Energy's understanding that the intent of modification proposal 0224 is to allow sites to submit daily meter readings and to be reconciled against these readings; however it facilitates this by extending the DM regime without the costs associated with the current DM regime. We do not believe that this is the correct model. EDF Energy supports the ability for Shippers to submit daily meter readings and to be reconciled against this. We believe that this will reduce Shipper risk and ensure that there is a better match between what the consumer is billed for and what Shippers are billed for. However the DM regime is only attractive to certain business models. We would note that Centrica has publicly stated that they would not be interested in this service and the indications provided to Ofgem identify a limited uptake. Nominating a site as DME will therefore create a sub-sector of the market that it appears the majority of Shippers will not be interested in quoting, and so restrict competition.

2. **Funding arrangements create cross subsidy.** The proposal proposes that this is a User Pays charge, and the development costs should be borne by the entire LSP market in EUC Bands 4-8 inclusive. However only a limited number of sites have expressed an interest in this service, and it is limited to 25,000 sites. This therefore creates a cross subsidy in that the consumers who are not interested in this service will have to fund the development of it, and even if there was significant demand the numbers are limited. User pays was introduced to ensure that those who benefitted from the service fund it, however this is only being proposed for Operational Costs. Cross subsidies are detrimental to competition and this appears to be in contravention of Transporter Licence requirements A15 and A5.

3. **Interactions with Project Nexus.** This modification proposes that any development costs associated with Nexus implementation should be funded as a core service. EDF Energy disagrees with this view and believes that this should at least be debated as part of the Project Nexus workstream. We would also note that at the UNC Modification Panel on 21 May 2009, Corona expressed the concern that implementation of proposals now could

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preclude the discussion of alternative arrangements as part of Project Nexus. This proposal could also create the same issues, in that implementation may preclude the discussion of alternative arrangements under Nexus which may be more attractive to shippers and represent a cost saving. We would therefore urge the UNC Modification Panel to consider this issue when discussing this proposal and treat this consistently.

In relation to the specific points raised in the Draft Modification Report EDF Energy would make the following comments:

2. **Classification of the Proposal as User Pays or not and justification for classification**
EDF Energy does not support the proposed apportionment of the development costs to all LSP points in EUC Bands 4-8. We believe that this creates a cross subsidy between those sites who choose to be DM Elective and those who do not. We believe that charges should be targeted at those supply points who wish to use this service – or at those Shippers who wish to use this service. This would be consistent with the intent of User Pays. We also believe that Project nexus costs should be recovered from a User Pays mechanism.

3. **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 pipe-line system to which this Licence relates;
EDF Energy agrees with the benefits identified. However given that only 4,600 site have indicated that they are likely to take this service we would question the materiality of these benefits, which would appear marginal.

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;
It is not clear which Licence condition this proposal believes it would facilitate. EDF Energy would note that Standard Licence Condition A5 requires Transporters to develop a charging methodology that is cost reflective. However this relates to the allocation of Transportation Costs and not energy costs. Standard licence Condition A15 also requires the development of cost reflective charges for User Pays services, but again this proposal appears to refer to the allocation of energy costs.

EDF Energy actually believes that implementation of this Proposal is actually detrimental to this relevant objective. In particular we would note that this proposal requires all LSP in EUC Bands 4-8 to fund implementation of this proposal. We are not clear how this is cost reflective given that the majority of sites will be funding a service that they do not want. It would be more cost reflective to target costs at those sites opting in or those Shippers who want to use this service. We also understand that charges have been developed for inclusion in the ACS so that they are cost reflective over 2 years. This is different to the treatment of other costs and charges within the ACS. We would therefore also question whether this element is cost reflective.

Standard Special Condition A11.1 (d): so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition (i) between relevant Shippers;
EDF Energy recognises that this proposal may create the incentive to extend the range of contracts available to consumers – however we would question whether this would be facilitated through a competitive market place anyway, and so this proposal only creates a mechanism to back off this risk for Shippers. We would also note that it appears that this modification proposal will only create the incentive if it is cross subsidised by other Shippers. This would therefore not appear to be beneficial to competition in that it creates a cross subsidy to a niche market at the expense of other market participants.

8. **The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk.**
As recognised by this proposal Shippers who do not wish to utilise this service will require minor development costs for their systems so that they are able to recognise the site as DME in the nomination flows. In addition shippers will be required to fund the development cost of implementation of this proposal regardless of whether they choose to take the service or not. They therefore need to ensure that these additional costs are built into their cost base. This therefore creates a contractual risk to Shippers.

10. Disadvantages
    - Anti-competitive
    - Creates a cross subsidy in favour of niche market players
    - Not cost reflective
    - Potentially closes out development of alternative options under Project nexus

I hope you find these comments useful, however please contact my colleague Stefan Leedham (Stefan.leedham@edfenergy.com, 020 3126 2312) should you wish to discuss these in further detail.

Yours sincerely

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