

John Bradley
UNC Panel Secretary
31 Homer Road
Solihull
West Midlands
B91 3LT



08 June 2009

Dear John

EDF Energy Response to UNC Modification Proposal 0229: “Mechanism for correct apportionment of unidentified gas”.

EDF Energy welcomes the opportunity to respond to the UNC Modification Proposals. We support implementation of 0229.

Under the current arrangements there is a volume of gas that is delivered to the UK, but whose use cannot be identified after all known reconciliations. The cost of this gas is covered solely by the Smaller Supply Point (SSP) market although there is evidence to suggest that the Larger Supply Point (LSP) market is responsible for some of this gas. This creates a cross subsidy from the SSP market to the LSP market. The industry has recognised that this is not an acceptable arrangement; however there have been differing opinions as to the volume of unidentified gas and how much should be apportioned to the different market sectors. EDF Energy believes that this modification proposal overcomes these issues by appointing an independent third party expert to develop a methodology to facilitate this. We believe that this is an improvement to the current mechanisms, which builds on an existing and accepted contractual approach.

In particular we would note that this proposal has built upon the business rules developed by modification proposal 0185VV were a Meter Error Expert is appointed to quantify the energy that should have been appointed following a meter error. A similar concept has also been applied to the appointment of an RbD auditor. Whilst these specific arrangements do differ we believe that the concept is sound and that this represents a suitable model that can be replicated to ensure that energy costs are targeted at the appropriate market sectors.

Whilst EDF Energy fully supports implementation of this proposal we believe that there are two areas that could benefit from further development. In particular these are:

- 1. Creation of a bespoke committee for the appointment of an Allocation of Unidentified Gas Expert (AUGE):** The proposal proposes that the AUGE is appointed either by the UNCC although this can be discharged through the creation of sub-committee to fulfil this requirement. EDF Energy would prefer the proposal to stipulate the creation of a bespoke committee to facilitate this. We believe that this is a complex area with significant commercial impacts for Shippers, who will want to be involved in the appointment process to ensure that an independent expert is appointed. EDF Energy believes that this is best facilitated through a bespoke committee rather than the UNCC.
- 2. The AUGE should be responsible for identifying what profile is most suitable for the allocation of costs:** The modification dictates that the costs are targeted to the LSP sector on a flat 1/12th profile. We do not believe that this is consistent with Ofgem’s views as part of the GDPCR in which they recognised that theft was correlated to

throughput but in the complexities of implementing such a regime outweighed the benefits given the relative size of the issue compared to shrinkage. We therefore believe that the AUGÉ should be responsible for identifying the correct allocation profile. This will ensure that costs are correctly targeted.

We would note that these are minor issues that can be resolved relatively simply by proposing a change to the UNC Related Document for approval by the UNCC. We therefore do not believe that these should detract from the implementation of this proposal which will represent a significant improvement to the current arrangements.

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 supports this modification as a User Pays proposal.

We believe that costs should be targeted 100% to Shippers, and in particular Shippers who receive GDN invoices. We would note that given the view in the GDPCR that theft of gas is correlated to throughput, then one option to recover these costs from GDN Shippers would be through a throughput based charge. Alternatively we would note that as costs are being targeted to the LSP market based on AQ share, then this could also form the basis of a User Pays charge. Given that the SSP market has funded these energy costs for a significant period of time, then it would appear reasonable to suggest that the LSP market fund the AUGÉ. Alternatively costs could be targeted to all GDN Shippers. EDF energy would therefore welcome further discussions on this issue prior to inclusion in the ACS if this proposal is implemented.

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

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;

As recognised by the modification this proposal will allocate costs more accurately to the SSP and LSP sectors. This in turn should remove a cross subsidy that is currently present between the sectors. It is generally recognised that cross subsidies are not beneficial to competition and so removing them will have a positive impact.

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

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

Dr. Sebastian Eyre
Energy Regulation, Energy Branch