

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



09 December 2008

Dear John

EDF Energy Response to UNC Modification Proposals 0235: “Recovery of Debt and Smearing of Revenues via Energy Balancing Neutrality”.

EDF Energy welcomes the opportunity to respond to this consultation; we support implementation of modification proposal 0235.

EDF Energy supports the intent of this proposal to ensure that Users’ exposure to a Defaulting User does not vary as a result of varying positions over time. In particular we would note that the effect of the Balancing Neutrality Mechanism should ensure that all Users’ individual position should net to zero. However the effect of the current methodology creates a risk that this will not occur as the calculation periods for the recovery and smearing of Energy Balancing Neutrality vary. Aligning the calculations will ensure that costs are correctly targeted at those who benefited from the original smear and Users will not benefit, or be penalised as a result of changing positions in the market. This should remove any cross subsidies that may occur and so benefit competition.

As a general point EDF Energy would note that following a User Default there is normally a suite of modifications to address elements of the UNC that have not worked as well as the industry would have hoped. In particular it has often been commented that the Credit Rules within the UNC work very well until there is a problem. We would note that historically all cases of User defaults have been caused by unique issues, particular to the circumstances. EDF Energy would therefore question whether more power could be provided to the EBCC to respond to these issues as it sees fit. We recognise that this issue has been discussed historically but concerns have been raised about the liability of EBCC members, however we would request that the EBCC gives further consideration to these arrangements with a view to introducing a mechanism whilst addressing the issue of liability. In particular we believe that the following issues merit further consideration:

- The development of predefined actions that can be instigated depending on the circumstances specific to the event.
- The appointment of a 3rd party to confirm that the actions proposed by the EBCC are suitable in the circumstances – this could be in the form of an independent credit expert, or NGG or xoserve, who would have the ability to veto any proposed actions if they were deemed to be inappropriate.
- The introduction of a mechanism to limit the liability of EBCC members and any 3rd party – this could be funded by the industry.

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