

John Bradley
UNC Panel Secretary
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Dear John

EDF Energy Response to UNC Modification Proposals 0244, 0244A and 0244B: “Amending DM Supply Point Data for Sites with Significant changes in Usage”.

EDF Energy welcomes the opportunity to respond to the UNC Modification Proposals. We support implementation of 0244 and 0244A, but we do not support implementation of 0244B. Modification Proposal 0244A is our preferred modification and 0244B is our least preferred proposal.

EDF Energy recognises the intent behind of all of these proposals to allow DM Supply points to re-set their SOQ so that it is more reflective of expected future offtake. This requirement is in response to the current economic downturn which has been exacerbated by the implementation of a 96.5% capacity charge through DNPC04 and DNPC03 – both of which were supported by large industrial consumers and their representatives at the time. However we would note that economic downturns are not one off events, occurring at numerous times historically. We would therefore question the time limiting of 0244B as this assumes that an economic downturn will not occur in the future or that a hastily drafted modification proposal will need to be raised and implemented.

We would also note that one of the discrepancies within the UNC is that only NDM LSP sites can appeal their AQs and SOQs outside of the AQ Amendment window. Given that changes in domestic demand are likely to be driven by an enduring change in consumption (such as a condensing boiler or increased insulation) rather than a temporary response to the economic environment it is questionable why SSP sites are not able to appeal their AQs and SOQs outside of the amendment window. However we recognise that this is outside of the scope of these proposals and is an issue being addressed both through UNC Modification Proposal 0209 and Project nexus. However given that this is a concept that already exists for NDM LSP sites, we see no reason why it can not be extended to DM sites.

We would also note that 0244A has identified a discrepancy within the UNC that needs to be reviewed and rectified. As noted by the proposer of 0224A TPD G 1.6.6 requires that:

“the Supply Point AQ should represent reasonable assumption as to the quantity offtaken from the Total System in the previous 12 months”.

However this appears to contradict TPD G1.6.13 which allows the AQ to be re-set in response to:

“a change in the Consumer’s Plant which results in a significant change in the basis on which gas is consumed.”

Therefore whilst G 1.6.6 suggests that the AQ can only be a historical view, section G 1.6.13 suggests that it can provide a view of future offtake if the consumer's plant has changed. Whilst the allowance in G 1.6.13 appears reasonable we believe that these sections of the UNC need to be reviewed so that it is clear as to what the requirements are.

In relation to the particular points 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 (a): the efficient and economic operation of the pipe-line system to which this licence relates;

It would appear that AQs and SOQs play an important role in two distinct areas of operation of the pipeline system. Firstly if they are used for the short time operation and planning of the system then enabling Shippers to re-set DM SOQs to a reflective level should provide a benefit as GTs will have a better view as to the likely demand on their system. This may also help to offset short term interruption requirements and so provide a benefit to consumers through reduced cost.

In addition if AQs and SOQs are used for the long term planning of the system and investment then there is a chance that these proposals will not provide a material benefit. In particular it would appear that the AQs and SOQs would be re-set to reflective the current economic climate, and so would no longer be reflective when this changes. This could therefore provide the GTs with an inaccurate view of future demand and so not facilitate this objective.

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;

EDF Energy recognises the concerns expressed by WWU regarding the implications that this proposal could have for cost reflective charges. In particular it appears that were any of the proposals to be implemented then DM Consumers could reduce their demand in response to an economic downturn and so reduce their transportation charges. However they would still have access to the DN system and so, all things being equal, would be able to utilise the existing infrastructure when the economic picture improved. This could therefore create a cross subsidy in the short term.

However we would note that were any DM Consumer to utilise these processes, then they would be exposed to the risk that the capacity could be utilised to meet demand at another exit point, or be used to offset a NTS exit booking. There is therefore a potential for costs to be correctly targeted were capacity to be utilised where it is required Therefore all proposals facilitate this objective.

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 believes that proposals 0244 and 0244A facilitate this objective. Proposals 0244A and 0244B allow GDNs to reject DM SOQs were it appears that they do not meet the requirements of the UNC based on empirical evidence etc. EDF Energy believes that this should provide protection to the industry against Consumers who may wish to use these arrangements for short term gain. We therefore believe that 0244A should result in better targeting of costs than 0244.

However 0244B proposes to introduce a ratchet charge to both DM and interruptible supply points. We fail to understand how introducing a ratchet charge to interruptible supply points

would ensure costs are targeted and so promote competition. We therefore do not believe that 0244B will facilitate this relevant objective.

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;

Proposal 0224B introduces transitional terms until 30 September 2011, which could be extended depending on the economic outlook. However requiring the continuing review of the arrangements does not appear beneficial or represent the efficient administration of the UNC. In particular we would note the number of UNC Modification proposals that have had to be raised to accommodate an end date within the UNC. In addition it would appear that the introduction of an end date suggests that these arrangements will only be required until the end of the economic downturn. This suggests that there will either not be any future downturns or that the next one will have no impact on DM sites. This is unlikely and so the industry will be required to raise future proposals to resolve these issues. We therefore believe that 0244B would have a detrimental impact on this objective.

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

Advantages

0244A:

- Short implementation timescales
- Enables scrutiny of applications

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