

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



04 September 2009

Dear John

EDF Energy Response to UNC Modification Proposal 0260: “Revision of the Post-Emergency Claims Arrangements”.

EDF Energy welcomes the opportunity to respond to the UNC Modification Proposal. We do support implementation of Modification Proposal 0260.

EDF Energy was an active member of the workstream that helped to develop this modification proposal. We support the implementation of this proposal as it provides additional clarity on the processes that will be followed in the post-emergency claims arrangements. We believe that this should help to attract additional gas supplies to the UK market, as Shippers will have greater confidence that they will receive a cost reflective price for this gas – either through the acceptance of a physical OCM offer, or through these arrangements. This should therefore provide a benefit to all consumers and Users. In addition we believe that the inclusion of an economic price assessment will help to provide certainty to the industry that the costs being claimed are valid. However we would note that this proposal and all the discussions around this issue are built around the assumption that normally market rules and factors are driving the behaviour of UK Shippers.

EDF Energy would question the validity of this assumption. We believe that in an emergency Shippers’ primary focus will be ensuring that gas supplies are maximised and the emergency is as short lived as possible to minimise the disruption and impact on their customers. We also have concerns with some of the other assumptions made in the proposal. In particular:

- NGG has attributed the greater risk of imbalance costs to physical “supply-side” users during an emergency (page 3). However this assumes that the emergency has been caused by an entry point or offshore production failure. This risk could equally be applied to the physical “demand-side” Users if the emergency has been caused by extreme cold weather across Europe combined with low European supplies. We therefore do not believe that it is correct to attribute this risk mainly to the supply side.
- NGG has conducted analysis to demonstrate that the operation of the IUK is correlated to European prices. Firstly we would note that this analysis was conducted for the months of January/February 2009 during the annual “Ukraine crisis”. We therefore do not feel that this represents normal market conditions for analysis. We believe that any correlation should be demonstrated over an entire winter, and a better correlation should be developed to identify a trend. We would also note that this assumes that normal market conditions will operate in an emergency. We are not convinced that this is an accurate assumption.
- NGG has assumed that Ofgem’s powers under the Competition Act should provide sufficient deterrent from Shippers who may use the opportunity to game the rules. Whilst we recognise that NGG is relying on Ofgem’s decision letter with regards UNC

0149, we would note that recent experience would question this experience. In particular we would note that Ofgem is looking to implement a Market Abuse Licence Condition in electricity to prevent against parties gaming the rules.

Finally EDF Energy would note that the area of emergency arrangements under the UNC has undergone a significant level of reform over recent years. These rules are becoming increasingly complex, and are in addition to the actions and instructions we have to follow from the NEC. EDF Energy therefore believes that it would be beneficial were NGG to facilitate a workshop to go through the UNC emergency arrangements to ensure that Shippers are fully aware of the UNC requirements and obligations.

In relation to the particular comments raised in the modification proposal EDF Energy would make the following comments:

11. Analysis of any advantages or disadvantages of implementation of the Modification Proposal
Disadvantages

- Introduces further complexity into the UNC during an emergency.

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