John Bradley
UNC Panel Secretary
31 Homer Road
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West Midlands
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28 August 2009

Dear John

EDF Energy Response to UNC Modification Proposal 0261: "Annual NTS Exit (Flat) Capacity Credit Arrangements".

EDF Energy welcomes the opportunity to respond to the UNC Modification Proposal. We do not support implementation of Modification Proposal 0261.

Modification Proposal 0261 was originally developed so that if a User failed to lodge security for its enduring exit bookings then it would be treated as a Shipper default. However this proposal has been amended so that if a User fails to lodge security, nothing happens other than they receive a notice from NGG. The User Default will not be enacted until the NTS Exit capacity is delivered and the Shipper fails to pay the bill. This could result in National Grid NTS undertaking significant investment to deliver enduring exit capacity that is not required, which would ultimately result in increased costs to Shippers and consumers.

EDF Energy believes that if a User signals NTS Exit Capacity and fails to lodge security then this should result in a default proceeding. This will ensure that NGG does not deliver capacity that is not required.

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

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

Standard Special Condition A 11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;
Under the current arrangements if a User fails to lodge security for the next 12 months of enduring exit capacity then their right to this capacity lapses, and so NGG is not required to deliver the capacity. EDF Energy would note that the 12 month rule was developed as this coincided with the peak investment requirements of NGG to support enduring and incremental capacity.

This proposal would force NGG to deliver the capacity, even if a User fails to lodge security. This could therefore result in NGG undertaking investment to support capacity that was not required, whilst under the current arrangements this would be avoided. This does not appear to be economic or efficient, and so implementation of this proposal could be seen to detract from this Licence Condition.

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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;
Standard Licence Condition A5 requires the Transporters to develop a charging methodology that reflects the costs incurred. Arguably if a Shipper triggers investment to support an enduring exit booking, then the costs it should be exposed to should reflect this. Under the current arrangements this issue is avoided as if credit is not lodged the delivery of the capacity is delayed and so investment is avoided. However under this proposal NGG will have to invest and if the Shipper defaults they will not be exposed to this cost. It would therefore appear that this proposal also detracts from this Licence Condition.

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; ...
In the proposal NGG state that implementation of this proposal would remove the consequence of capacity lapsing and there being an under recovery of allowed revenue. However all this proposal does is remove the ability for Shippers to delay the delivery of capacity by not posting credit – it has no impact on revenue recovery.

In particular we would note that if this proposal were implemented NGG would deliver capacity to meet an enduring exit booking, even if no security had been provided to support this. If the Shipper no longer required this capacity and defaulted, then NGG would still be required to collect the same revenue and would do from other users. However in the worst case in order to deliver this capacity NGG may require investment, and an associated revenue driver. This would therefore increase NGG's allowed revenue and this would be recovered from other Users. However under the current arrangements this would be avoided as the requirement to deliver the capacity would lapse.

It would therefore appear that this proposal is at best neutral to this relevant objective, and at worst detracts from it.

8. **The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk.**
   This proposal increases the risk to Users that NGG will deliver capacity that is not required and it is only at the point of delivery that this will be realised. Under the current arrangements the mechanism provides a forewarning that the capacity is not required and so should not be delivered, however this proposal removes this.

9. **The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party**
   If revenue drivers were enacted to support the delivery of capacity that was not required, then this would increase costs to consumers, particularly those on transportation costs pass through.

11. **Analysis of any advantages or disadvantages of implementation of the Modification Proposal**
   Disadvantages
   - Removes a forewarning mechanism that is currently present in the UNC.
   - Requires NGG to deliver capacity that would not have been delivered under the current arrangements.
   - Increases costs to consumers.

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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