

John Bradley
UNC Panel Secretary
31 Homer Road
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04 December 2009

Dear John

EDF Energy Response to UNC Modification Proposal 0275: “Reduction in DM LDZ Exit Capacity for Supply Points with Significant Changes in Usage”.

EDF Energy welcomes the opportunity to respond to this UNC Modification Proposal. We support implementation of modification proposal 0275.

Implementation of this proposal will allow GDN connected DM sites to reduce their SOQ and BSSOQ bookings in response to any reduction in their usage. We understand from I&C Consumers and their representatives that this is required in response to the economic downturn which appears to be coming to an end. EDF Energy recognises that the current rules within the UNC for setting the BSSOQ level appears to create an artificial restriction on booking capacity, as in the worst case scenario a reduction in usage can take up to 2 years to feed through to a reduction in the BSSOQ. It would therefore appear appropriate for the UNC to be modified so that Shippers and Consumers can reduce their SOQ and BSSOQ to an appropriate level.

However we would note that the process proposed for DM sites is significantly different for capacity alterations for a LSP NDM site. In particular where there is a change in usage for a LSP NDM site, or a manifest error in the AQ, then Shippers have to produce evidence that the proposed alteration is accurate. This is either in the form of meter readings, or the completion of a BTU form which details the thermal efficiency of all the equipment that is installed on the premise. However modification proposal 0275 only requires a warrant from the Shipper and Consumer that the proposed SOQ and BSSOQ are accurate. Whilst we recognise that Shippers have a Licence Condition to not knowingly or recklessly mislead the Transporters, we are unclear as to how any mis-booking or gaming will be enforced? From previous discussions with xoserve it has become clear that they are unwilling to validate or query any warranties where they do not have sufficient information for fear of placing the Transporters in breach of their Licence to not unduly discriminate. For DM sites we would expect there to be a significant number of meter readings to support any reduction in SOQ and BSSOQ, and so we are surprised that these are not being utilised when a BSSOQ and SOQ appeal is lodged.

EDF Energy would also note that the ability to appeal or alter an AQ during the year is limited to LSPs only. For NDM LSPs any alteration to the AQ automatically feeds through to a revised SOQ, whilst this is not the case for DM LSPs and it is this issue that this modification proposes to resolve. However there are only 326,450 LSPs, compared to 21,209,536 SSPs¹.

¹ Figures provided by xoserve at the 14 July 2009 Market Differentiation meeting based on portfolio report dated 1 June 2009, available from:

<http://www.gasgovernance.co.uk/sites/default/files/MarketDifferentiationPresentation1stmtg.ppt#285.7>
[,AQ vs Market Sector Flag](#)

In their decision letter on the 0244 suite of modification proposals Ofgem notes that there was insufficient information presented to identify whether the different treatment of NDM LSP sites and DM sites regarding SOQ bookings was unduly discriminatory or not. EDF Energy would therefore question whether allowing the different treatment of LSP and SSP sites regarding SOQ and AQ bookings would also give rise to undue discrimination for the vast majority of sites. For SSP sites the AQ and SOQ are fundamental to both transportation costs and energy allocation. However unlike LSP sites any energy misallocation is not corrected through individual meter point reconciliation. It would therefore appear that the ability to correct an SSP AQ and SOQ during the year is of more significance than the ability to correct an LSP AQ and SOQ which only impacts on transportation charges.

Finally EDF Energy would like to take the opportunity to answer some of the questions posed by Ofgem in their e-mail dated 28 September 2009 regarding the issue of DM LDZ Exit Capacity reductions:

1. Evidence of need

EDF Energy is not aware of a demand for this service from any of our DM consumers. However we would note that this is not one of our core markets. We are aware that some parties have indicated that there is a demand for this service; however we are unable to quantify what the level of demand for this service is. The current rules do appear to create an artificial restriction, but we would note that the vast majority of sites will continue to be unable to amend their AQ and SOQ during the year.

2. Sufficient evidence to conclude whether

a. In practice NDM customers do reduce their capacity with significant impact on the rest of customers, or

When setting or amending an AQ Shippers are driven by two requirements. UNC TPD G1.6.6 requires Shippers to lodge an accurate AQ. In addition Shippers have a Licence Condition to not knowingly or recklessly mislead the Transporters. EDF Energy believes that this places a further requirement on Shippers to ensure that the Aqs registered to their sites are accurate. We therefore believe that within year NDM LSP reductions are driven primarily by these requirements. The evidence presented by xoserve appears to suggest that the number and level of LSP reductions is relatively small. However we would note that this is only available to LSP Shippers.

b. Allowing DM sites to reduce their capacity in a similar way to NDM customers would not give rise to inappropriate increase in the share of GDN costs that are paid by NDM customers.

As previously noted only NDM LSP sites are able to reduce, or increase their SOQ during the year. There is therefore a concern that by only opening up these arrangements to the LSP market the SSP sector is left unable to amend Aqs and SOqs and would be required to fund an increasing proportion of Transportation charges. However we would also note that initial indications are that there is a very limited demand for this service, and so we would not expect there to be a significant impact. We would therefore hope that responses to this consultation from I&C Consumers and their representatives will provide a more detailed quantification of the demand for this service and the potential impacts to aid Ofgem's decision.

- 3. Evidence that any transitional relief or a long term solution avoids the risk of gaming**

EDF Energy believes that the proposed catch up mechanism for interruptible sites and ratchet mechanism for firm sites should avoid the risk of gaming. We would also note that the Shipper Licence Condition to not knowingly or recklessly mislead the Transporters should also provide an incentive not to game. However when making the request Shippers will be very reliant on Consumers. EDF Energy is therefore concerned that there was a suggestion at the 264 review group meeting on 13 November 2009 that one way to avoid the catch up mechanism would be to switch classification from interruptible to firm. We would also note that unlike the current mechanisms for NDM LSP capacity alterations this proposal does not require any supporting evidence. This is surprising given the number of meter readings that should be available for sites who wish to utilise the proposed mechanism.
- 4. Evidence to quantify the potential impact of a proposal on consumers. Both those directly affected by the modification and the broader consumer base**

EDF Energy does not have any evidence to quantify the impact that implementation of this proposal will have on consumers. Initial indications are that demand for this proposal is very limited and so the impact should not be significant. However we expect that interested parties will provide further information to Ofgem in their consultation responses to quantify the impact of this proposal.
- 5. Evidence that a proposal better meets the relevant objectives**

Please see our responses below.

In addition to the particular points raised in the UNC Modification Proposal EDF Energy would make the following observations:

2. User Pays

EDF Energy believes that this proposal will require xoserve to deliver new services and there will be a cost associated with this. We would therefore have expected for this proposal to be classified as User Pays, with those Shippers who wish to utilise this service funding it.

However EDF Energy recognises that the Governance of User Pays Proposals, as implemented by modification proposal 213V did not cover Urgent UNC Modification Proposals. When developing proposal 213V this was an issue that was raised and discussed, however given that the process for Urgent Modifications Proposals sits outside the normal UNC Governance it was felt that this would be too complex, and the timescales involved with an urgent modification would be too tight to cover these in the proposal. However this does not prevent an Urgent Modification Proposal being classified as User Pays.

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

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;

As previously noted implementation of this proposal will extend the ability to alter SOQs to the GDN connected DM LSP market. However this service will not be available to the SSP market, and so they will be unable to alter their Transportation charges or energy allocation. We would therefore question whether extending this service to the DM LSP market is due or undue discrimination and so consistent with the relevant Gas Transporter obligations under their Licence.

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;

One outcome of the implementation of this proposal is that the SSP market will be unable to amend or appeal their AQ and SOQ during the year. This could result in this sector covering an increasing proportion of the Transportation charges and so creating a cross subsidy between the SSP and LSP market. It is widely recognised that cross subsidies are detrimental to competition and so it could be questioned whether this proposal facilitates this relevant condition or not.

9. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party:

As recognised by the proposal, implementation of this proposal may result in lower capacity charges for end consumers at DM Supply Points who utilise this service. However as also recognised by this proposal this will also result in a decrease in revenue collected by the GDNs from the DM sector, which would feed through into the “k” factor for Transportation charges in 2010. It would therefore appear that implementation of this proposal will shift costs from the DM sector to other sectors of the market. However EDF Energy is unable to identify how significant an impact this may be, as we have limited evidence of the demand for this service.

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