

John Bradley
UNC Panel Secretary
31 Homer Road
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11 January 2010

Dear John

EDF Energy Response to UNC Modification Proposal 0276: “Alternative User Pays approach to – UNC Modification Proposal 0263 – Enabling the Assignment of a Partial Quantity of Registered NTS Exit (Flat) Capacity”.

EDF Energy welcomes the opportunity to respond to this UNC Modification Proposal. We support implementation of modification proposal 0276.

As recognised by the UNC Modification the current rules only allow the full assignment of exit capacity between Users. However this fails to recognise the operational reality at NTS Exit points where capacity bookings need to vary in response to changing supply contracts and tolling agreements that may be in place. It is therefore likely that the overall capacity at an exit point will remain constant, however the allocation of this capacity between Shippers would change year on year, which this proposal would facilitate. Failure to implement this proposal would therefore limit the supply contracts that are available to customers as they would be presented with an all or nothing contract, or it would encourage Shippers to book shorter term products, in line with their supply contracts or tolling agreements. This would therefore prevent National Grid NTS receiving long term signals, which would be neither economic nor efficient.

EDF Energy believes that this modification proposal is designed to ensure effective implementation of exit reform. We would note that this reform was central to GDN sales in 2005 and that the cost of this reform was expected to be covered by the GDNs and NGG NTS. Whilst we recognise that with hindsight this issue should have been resolved in modification proposal 0195AV this was a fundamental reform of significant parts of the UNC that was progressed on a relatively tight timescale. It is therefore to be expected that issues are identified over time that need to be resolved to ensure that the reform is implemented effectively and as intended. We would also note that this appears to be a view shared by Ofgem at both the September and October Transmission Workstream where in response to action TR0801 it was confirmed that Ofgem’s initial view was that modification proposal 0263 should not fall within the User Pays regime. EDF Energy therefore fundamentally disagree that this is a User Pays Proposal. However we would note that support for this proposal should be judged against the relevant objectives and not the funding arrangements. Therefore we support implementation as judgement against the funding of this proposal is essentially outside of the scope against which this proposal is judged.

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

2. User Pays

EDF Energy disagrees with the proposer that this is a User Pays Proposal. As previously noted we believe that this forms part of enduring exit reform, a requisite of GDN sales in 2005 which was to be funded by NGG. We would note that whilst the proposer asserts that this was not discussed as part of UNC Review Group 0166, EDF Energy believes that this was in fact discussed at the Review Group meeting of 04 October 2007. In particular the minutes for the meeting note that:

“It was recognised that the purpose of assignment was to facilitate the transfer process. Everything is currently in place to ensure that capacity transfers when a change of Shipper occurs.”

EDF Energy understands that the transitional arrangements, which are an extension of the old UNC prior to 0195AV allow for the partial assignment of exit capacity between Shippers, and the discussions and intention of Review Group 0166 was to maintain these arrangements. We therefore believe that the current UNC rules implemented by proposal 0195AV on partial assignment was an oversight and not a deliberate outcome of the Review Group, and so implementation of this proposal is not User Pays.

EDF Energy would also like to take the opportunity to express our disappointment that NGG has raised this proposal. The intention of UNC Proposal 0213V was to ensure that numerous proposals and alternates were not raised on the issue of User Pays and the proposed allocation of costs. UNC 213V therefore introduced the possibility for the mod panel to request a view from Ofgem as to the appropriateness of a User Pays Proposal and the funding arrangements. The intention was that this would provide a clear view to UNC parties regarding the likelihood of success of their proposals, and so discourage them from raising a futile UNC Proposal. The minutes of the Transmission Workstream on 03 September 2009 state:

“ACTION TR0801: Ofgem (POD) to ascertain if Proposal 0263 should fall within the User Pays regime.

Update: POD confirmed Ofgem’s initial view that Proposal 0263 should not fall within the User Pays regime.”

This position is re-confirmed in the minutes of the Transmission Workstream on 01 October 2009 which states:

“POD confirmed that they had reached a view that this should not be a User Pays Proposal...”

Given these clear indications from Ofgem and discussions at the Review Group EDF Energy believes that it has been uneconomic and inefficient for NGG to raise this proposal.

In addition EDF Energy would note that even were this proposal to be deemed to be a User Pays Proposal, the proposed recovery of costs 100% from Shippers is also inappropriate. It is reasonably clear that this proposal if implemented would facilitate Standard Special Condition A11.1 (a) and A11.1 (d) of NGG’s Licence (please see below for further information on this). UNC Modification Proposal 0213V also introduced the User Pays Guidance Document which was designed to provide Guidance to the industry on the User Pays regime. Contained within the guidance document is the Industry Cost Allocation Matrix (ICAM) which

was designed to provide guidance as to how User Pays implementation costs should be allocated between Shippers and Transporters. If a proposal meets Standard Special Conditions A11.1 (a) and A11.1 (d) then costs should be recovered 50% Transporters and 50% Shippers. This proposal is therefore inconsistent with the Guidance Document, which although has no formal Governance was developed in conjunction with all the Transporters including NGG.

3. 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 pipeline system to which this licence relates:

For sites where the overall level of capacity will remain constant in the long term, but the allocation between Shippers will vary, the UNC encourages Shippers to book short term capacity to meet their requirements as they are unable to partially assign long term capacity to other Shippers. Implementation of this proposal would encourage long term bookings as Shippers would have the certainty that they could allocate capacity other Shippers to meet the operational requirement of the Supply Point. This will therefore provide long term signals to NGG NTS and so facilitate the economic and efficient development of their pipeline system. We would note that the principle of providing long term signals was fundamental to the development of exit reform.

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;

The current UNC rules only allow the full assignment of NTS Exit capacity. This would therefore limit customers to maintaining their current contractual arrangements in terms of quantities supplied, although they would be able to choose between suppliers. Partial assignment would allow customers to vary their contractual arrangements to meet their requirements. For example a customer could have a supply contract with a single Shipper, however going forward they may require 1 Shipper to provide baseload supply and another to provide peaks – this could only be facilitated through partial assignment of capacity.

6. The implications for Transporters and each Transporter of implementing the Modification Proposal:

EDF Energy recognises that there may be costs involved with implementation of this proposal. However EDF Energy believes that this forms part of implementing exit reform, a condition of GDN sales and included within NGG's Licence. We would note that fundamental to exit reform was the requirement to provide long term signals to NGG to ensure the efficient and economic development of their pipeline system. This was to be funded by Transporters and so we believe that if any costs are to be incurred they should be recovered from NGG NTS.

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

Implementation of this proposal will allow consumers to vary their contractual arrangements to meet their operational requirements, and potentially reduce their gas supply costs.

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

Advantages

- Ensures the effective implementation of exit reform, a condition of GDN sales contained within NGG NTS' Licence
- Encourages the booking of long term capacity

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