Bob Fletcher
UNC Panel Secretary
31 Homer Road
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26 August 2010

Dear Bob

EDF Energy Response to UNC Modification Proposal 0315: "To Enhance Section X of the UNC Transportation Principle Document to improve the Energy Balancing Further Security Process".

EDF Energy welcomes the opportunity to respond to this UNC Modification Proposal. We support implementation of Modification Proposal 0315.

The intent of this proposal is to ensure that Shippers lodge sufficient credit to meet their long term credit requirements, rather than just topping their credit up to meet their short term requirements. We believe that ensuring Shippers have sufficient credit in place will reduce the risk to the industry from Shipper default, and also reduce the workload associated with issuing Further Security Requests (FSRs) to these Shippers. This would therefore appear to have a beneficial impact on competition and administration of the UNC. However we do have some concerns with the proposal. In particular we would note that:

- It is not clear from this proposal how material an impact implementation of this proposal would have. If this proposal were only to impact on a handful of low value instances in a multi-year period then whilst it would facilitate the relevant objectives, the impact would be marginal or theoretical.
- It is not clear what the impact of this proposal would be during periods of high and volatile gas prices. There is a chance that Shippers could be required to lodge additional credit for a 12 month period as a result of a temporary spike in gas prices that they had been unable to lodge additional credit for in time. This could therefore force a Shipper would acts reasonably and prudently to have additional credit for a 12 month period.
- It is not clear why a 28 day measurement period has been adopted, and why the difference in treatment between a Shippers who receives 3 FSRs in 28 days, compared to the Shipper who receives 4 FSRs in 30 days?

Whilst EDF Energy does have these concerns, we believe that overall this proposal represents an improvement on current arrangements and so support implementation of this proposal. We would

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note that the impact of this regime can be monitored and further amendments made to ensure that it operates as expected with no unintended consequences.

In relation to the particular sections of the modification report EDF Energy would make the following specific comments:

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 subparagraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

EDF Energy disagrees that implementation of this proposal facilitates this relevant objective. In particular we note that A15 relates to the contract between the Transporters and their agent. This proposal, if implemented, will only impact on the UNC – the contract between the Transporters and Shippers – and not the Agency contract. EDF Energy therefore believes that this proposal is neutral on this relevant objective.

Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (a) to (c) the securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;

We agree with the proposer that implementation of this proposal will reduce the impact of Shipper default by reducing the industry's exposure by ensuring that sufficient credit is in place. However it would be beneficial to have supporting information to identify how many times these rules would have been enacted in the past and the value of the impact that this would have to inform the industry and panel of the materiality of this proposal. If this proposal would only impact on a handful of low value occasions then the benefits to industry would appear to be limited.

However we also note that this proposal could create a barrier to entry, or limit a Shipper's trading ability at times of high prices. In particular if prices are high then a Shipper may chose to reduce their trading in order to avoid the risk of higher credit costs as a result of implementation of this proposal. This is detrimental to liquidity on the market and competition.

In addition we would note that in periods of high and volatile prices then a Shipper may be required to significantly increase their security cover in a very short period of time. There is therefore a risk that application of these modification rules could result in a Shipper being required to lodge credit at a level significantly above their normal requirements, potentially constraining their cash flow and working capital, thus having a detrimental competitive impact.

Standard Special Condition A11.1 (f): so far as is consistent with subparagraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;

We believe that implementation of this proposal could reduce the workload associated with managing Shippers who continually run close to their credit limits by ensuring that they have sufficient credit in place. This benefits the implementation and administration of the UNC by reducing the operational burden associated with managing these Shippers.

I hope you find these comments useful, however please contact Stefan Leedham (Stefan.leedham@edfenergy.com, 020 3126 2312) if you wish to discuss this response further.

Yours sincerely

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