Representation

Draft Modification Report

0333/0333A - Update of the default System Marginal Buy Price and System Marginal Sell Price

Consultation close out date: 11 February 2011

Organisation: **EDF Energy**

Representative: Stefan Leedham

Date of Representation: 11 February 2011

Do you support or oppose implementation?

0333: Qualified Support

0333A: Qualified Support

If either 0333 or 0333A were to be implemented, which would be your preference?

Prefer 0333A

Please summarise (in one paragraph) the key reason(s) for your support/opposition and preference.

Proposal 0333 has been raised by National Grid (NG) in response to the Licence Condition placed upon them by Ofgem. We therefore believe that both modification proposals 0333 and 0333A will facilitate NG's compliance with their Licence. However, we have not been presented with any strong arguments regarding the impact that this will have on Shippers' balancing activity and position, and so we are unclear whether this proposal will benefit NG's operation of the system. From the graphs NG presented at the workgroup it was clear that shipper's imbalances had improved in recent years when the default cashout prices remained unchanged. It is therefore unclear whether this modification will improve overall shipper balancing behaviour given that NG price estimates using the new methodology produced similar or lower default prices. From our perspective we do not believe it will have a material impact on our balancing behaviour, but recognise that we are unable to comment on other Shippers' activity.

We prefer 0333A as the cost allocation under User pays is aligned with the cost allocation matrix in the User Pays Guidelines Document. This document was developed by both parts of NG and we note that National Grid Distribution has felt that the cost allocation matrix should always be followed and is not a voluntary schedule.

Are there any new or additional issues that you believe should be recorded in the Modification Report?

We believe that the modification report covers the key issues.

Relevant Objectives:

How would implementation of either modification impact the relevant objectives?

As noted in Modification Proposal 0333A we believe that the key objective that these proposals will facilitate is Licence Condition A11.1 (c) – the efficient discharge of the Licensee's obligations under their Licence. NG's Licence was amended so that they were required to review and bring forward updated proposals on the default cashout price. We do not believe that NG would have raised this proposal were they not subject to this Licence Condition.

We believe that implementation of both proposals would also facilitate Licence Condition A11.1 (a), if they were to have a positive impact on Shipper imbalance and so operation of the total system. However, we have not seen any evidence to suggest that this is the case. The benefit could therefore be considered marginal.

We are not convinced that 0333 would have any impact on Licence Conditional A11.1 (d) – facilitating effective competition as highlighted in the final mod report and in the workgroup. We believe that NG's arguments in support of this objective are tenuous and aimed at ensuring that costs are allocated to Shippers. Alternatively we believe that 0333A may have a marginal beneficial impact on competition if the allocation of costs of implementation is more accurately targeted.

Impacts and Costs:

What analysis, development and ongoing costs would you face if either modification were implemented?

We raised proposal 0333A as an alternate as we did not support NG's proposed allocation of costs to Shippers. We believe that if the cost allocation matrix is followed then this would result in the allocation of 75% of costs to Transporters and 25% to Shippers. For clarity we expect all of these costs to allocated to Transporters to fall to NG, however, this is covered by a Transporter funding agreement not the UNC and so is outside of the scope of this proposal.

We are also concerned with the implementation costs identified by NG. We note that at previous Transmission Workgroups Poyry identified that they could implement the system changes for £100,000. We therefore believe that further work is required to identify whether these costs have been efficiently incurred.

Implementation:

What lead-time would you wish to see prior to either modification being implemented, and why?

We believe that either proposal should be implemented on 1 April 2011 – provided that the industry receives sufficient notice. For ourselves this is minimal, but we would note that the cashout price is also displayed on the APX screens and they may require a lead time to implement this change.

Legal Text:

Are you satisfied that the legal text will deliver the intent of each modification?

NB: while formal legal text has not been provided, Suggested Text has been included in the modifications and comments on this will be helpful when the text is finalised.

No comments

Is there anything further you wish to be taken into account?

Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise.

No comments