

Bob Fletcher  
UNC Secretary  
Joint Office of Gas Transporters  
31 Homer Road  
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B91 3LT

09 December 2010

Dear Bob

**EDF Energy Response to UNC Modification Proposal 0349: "Introduction of a Force Majeure Capacity Management Arrangement".**

EDF Energy welcomes the opportunity to respond to this consultation. We support implementation of this modification proposal.

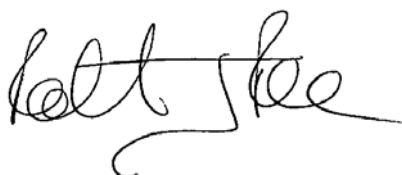
We understand that the intent of this proposal is to ensure that National Grid is exposed to some of the costs associated with a force majeure event, thus providing an incentive on National Grid to only call a force majeure when appropriate and to limit the length of the force majeure. In addition this proposal seeks to ensure that Shippers are "compensated" for the capacity that they hold that is subject to a force majeure notification by ensuring that National Grid pays them the weighted average cost of the capacity. We believe that this proposal does meet the later objective of compensating Shippers for their impacted capacity, but we are not convinced that this proposal places an incentive on National Grid to manage a force majeure event. This was one of the areas that led to Ofgem rejecting the previous modification in this area (UNC Modification Proposal 0262).

In addition, when rejecting 0262, Ofgem raised concerns that implementation of the proposal may result in a cross subsidy from exit Shippers to entry Shippers, and reduce the incentive on Shippers to challenge force majeure notices if they were financially compensated. We note that this proposal has gone some of the way by classifying these costs as an Entry Capacity Neutrality cost, and so ensuring that these remain targeted at Shippers who hold entry capacity. However, this modification also proposes that these costs should feed into the Entry Capacity Buy Back incentive, and it is not clear whether this incentive is only targeted at entry Shippers, or whether it is a revenue term that feeds into allowed revenue and so is recovered from entry and exit Shippers. There remains a risk that the cross subsidy identified by Ofgem for 262 remains. We are also unsure that a modification proposal can identify costs for the Entry Capacity Buy Back Incentive. This incentive was set as part of the price control for National Grid, and so is included in their Licence. If the Licence remains unchanged then these costs would only fall on Shippers and no incentive would be placed on National Grid to manage force majeure events and limit their duration.

Modification Proposal 0349 also fails to address the issue that implementation of this proposal may reduce, or even remove, the incentive on Shippers to challenge a force majeure when one is challenged. The effect of this proposal is that impacted Shippers will essentially be held neutral to any force majeure event, and in Ofgem's rejection letter on 0262 they felt that removal of this incentive would have a detrimental effect on the efficient and economic operation of the pipeline system. We would note that whilst this proposal will hold the Shipper neutral to capacity costs it will still be exposed to energy costs, or opportunity costs, if it is unable to deliver as much energy as desired due to the prevalence of force majeure. We believe that this will act as an incentive to challenge force majeure, although there may also be a benefit in reviewing the definition of force majeure within the UNC to ensure that it is sufficiently clear and only covers standard force majeure events.

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

Yours sincerely

A handwritten signature in black ink, appearing to read "Rob Rome".

Rob Rome  
Head of Transmission and Trading Arrangements  
Corporate Policy and Regulation