



Julian Majdanski
Joint Office of Gas Transporters
Ground Floor Red
51 Homer Road
Solihull
West Midlands
B91 3QJ

30 November 2006

Dear Julian

EDF Energy Response to UNC Modification 0090 “Revised DN Interruption Arrangements”.

EDF Energy welcomes the opportunity to respond to this consultation; however we are unable to offer our support to its implementation at this time. We do not believe that implementing radical reform of both the NTS Exit Arrangements and DN Interruption Arrangements at the same time is in the interest of the industry, and so believe that implementation of this proposal should be delayed until the new exit regime has been implemented. This will allow both Gas Distribution Networks (GDNs) and Shippers to identify how this regime will work in practice and identify the implications that this regime will have on their requirements. In relation to the particular questions that this proposal is seeking views on, we would make the following observations:

The coordinated, efficient and economical operation of (i) the combined pipeline system, and (ii) the pipeline system of one or more other relevant gas transporters.

- Implementation at the same time as NTS Exit Reform will pose a significant risk to both the operation of the NTS and the GDN systems. The GDNs will be required to secure adequate interruption to secure their system, without knowledge of the capacity that will be available to them, whilst being required to book capacity with no experience of the operation of their system under these new arrangements. This could result in inefficient and uneconomic volumes of interruption being procured on the GDN system, and uneconomic and inefficient volumes of capacity being acquired on the NTS system.
- It is not clear from this proposal what the impact of removing Network Sensitive Loads (NSLs) will be on the GDN or NTS system. It is not clear that these NSLs will continue to be required, or not, or what the impact of these sites going firm will be on the system. It would appear that were all NSLs to decide to go firm, by not offering interruptible services, the GDNs would be required to undertake significant amounts of investment to secure these loads. We would question whether this was economic and efficient, or even feasible.
- This proposal removes the right for the NTS Transporter to interrupt GDN loads in all circumstances, other than in an emergency, and we would question how this secures this relevant objective.

The efficient discharge of the licensee’s obligations under this proposal.

- EDF Energy sympathises with the GDNs who have been forced to implement this proposal as a result of the GDN sale, however we do not believe that implementing something because another party believes it is a good idea is always the best thing for the industry. We would note that in history there have been lots of good ideas that when

implemented have shown to be a total failure. EDF Energy believes that the industry should be allowed to develop proposals for improving the market, relying on a single centralised authority to ensure there is no market abuse.

- In order to meet the requirement for the economic and efficient development of the GDN systems, it would appear that this requires the GDNs to be able to contract for the required volumes of interruption, or invest if this was more economic. We do not however believe that it has been adequately demonstrated that Shippers and Consumers will be prepared to offer this service. In particular we note that the period for interruptible services will be for Gas Years Y+4 to Y+9, when most Shippers only have a contractual relationship for a 12 month period, and the complexity of the regime may prevent Customers from being prepared to offer this service. We would note that this may lead to excessive interruptible prices, or excessive investment, or both if GDNs are unable to contract for adequate volumes and are unable to undertake all the investment in time.
- Further the ability for this proposal to achieve its objective of allowing the market to identify its value of interruption will be dependent on the pricing regime that is implemented. It is therefore not clear that this proposal will achieve this requirement as it has not yet been confirmed whether the GDNs will be adopting an administered price approach or a full auction.

The Securing of effective competition between (i) Shippers and (ii) Suppliers.

- As previously noted this proposal requires the contracting for interruptible services for time periods longer than a Shipper's normal contractual window. It is therefore likely that Shippers will not enter into these auctions or that new contracts will be required to align both contractual timeframes. Neither outcome will be beneficial to security of supply.
- We would further note that the complexity associated with administering this scheme may see certain Shippers and Suppliers withdraw from this section of the market, which is again detrimental to competition. Conversely the introduction of this product may encourage the development of new contracts, which is beneficial to competition, although we do not believe that an effective argument has been made for either outcome.

The Implications on Security of Supply, operation of the Total System and industry fragmentation.

- It is clear that by reducing or removing the volume of interruptible load, then in an emergency situation the UK will progress a lot more quickly from Stage 1 to Stage 2 and then Stage 3. In these conditions there is a likelihood that sites will be less prepared to firm load shed if they had moved from interruptible to firm. It is therefore possible that the UK would also enter a Stage 4 emergency more quickly than under the current arrangements. We would therefore question how this is beneficial to security of supply.
- It has not been adequately demonstrated that the GDNs will be able to secure sufficient quantities of interruption under this regime, with many participants in the development work group noting that the appetite amongst customers to offer this type of service had significantly decreased. If inadequate volumes of interruption are procured through these arrangements then this will not be beneficial to security of supply.
- We would further note that by removing the right for the NTS to interrupt GDN loads, that this represents further fragmentation of the industry.

The consequence of implementing the proposal on the level of contractual risk of each Transporter.

- As previously noted implementation of this proposal will remove the ability for the NTS to interrupt GDN loads. We believe that this will increase the NTS' contractual risk.

- It would also appear that the GDNs contractual risk will be increased as they will be required to identify the volume of interruption required. They will be exposed to the risk that they will set their interruption requirements at an incorrect level, or that insufficient interruption is acquired.

The implications for Users.

- As previously stated increasing the window that interruptible services will be contracted for will increase costs to Users as the window will fall outside of the normal contractual relationship. This will represent an administrative cost and burden to Shippers.
- Increasing lead times and User commitments would also intrinsically increase Users' risks.

I hope you find these comments useful, and please contact me should you wish to discuss them further.

Yours sincerely

A handwritten signature in black ink that reads "Stefan Leedham".

Stefan Leedham
Gas Market Analyst
Energy Market Strategy, Energy Branch.