

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



03 August 2007

Dear Julian

EDF Energy Response to UNC Modification Proposals 152V, 152AV & 152BV:
"Limitation on Retrospective Invoicing and Invoicing Correction".

EDF Energy welcomes the opportunity to respond to these consultations. We support proposal 152V, and provide qualified support to modification proposals 152AV and 152BV. In terms of preference 152V is our preferred mod and 152AV is our least preferred proposal, with 152BV holding the middle ground.

EDF Energy actively participated in the Review Group 0126, from which these proposals were developed, and we are disappointed that the issues raised in proposal 152AV were not raised within this review group. This is especially the case given that it was clear from the second meeting of the review group 0126 that this proposal would impact on all invoices and not just RbD invoices. We believe that full participation in the review group would have ensured that these issues were at least aired and discussed, rather than waiting until the consultation process to raise these.

As a domestic Shipper and Supplier EDF Energy is directly impacted by the current RbD invoicing process which present an issue given they can go back a significant period of time, back to February 1998. We believe the lack of an effective invoice cut off point acts as a barrier to entry and is uncompetitive. Indeed, EDF Energy did not gain a Shipper Licence until 2001, essentially exposing us to costs going back to 1998, based on our current AQ holdings within the LDZ that the RbD relates to. This exposure creates a significant risk, the cost of which may be ultimately passed through to consumers as suppliers mitigate this extra exposure by incorporating risk premiums into tariffs.

We therefore believe that the current process results in the incorrect redistribution of costs amongst Shippers as their current AQ holdings are not reflective of their historical transactions. Similarly, the current process of smearing back misallocations of costs on the NTS also leads to socialisation of charges as this is done through a reduction in the SO Commodity charge. Therefore Shippers currently active on the NTS are impacted by this smear back even though this may be significantly different to Shippers who were active at the time that the error started. We believe this contradicts National Grid's Gas Transporter Licence which requires charges to reflect the costs incurred, and we are surprised that

NGG has not sought to rectify this, given the importance that they placed on this condition in both the 0126 Review Group and their consultation response.

EDF Energy would further note that responsibility for the accuracy of a gas meter under the UNC sits with either the User or GDN User affiliated with the meter. In the event that a meter error is identified those responsible for ensuring the accuracy of the meter are not exposed as they are always reconciled based on meter reads. There is therefore not only an incorrect socialisation of costs associated with the current regime, but an asymmetric sharing of risks focusing on RbD Shippers and the domestic customer.

As participants in the review group we are aware that the issues of asymmetrical risk and the socialisation of costs were discussed in great detail within this group. As part of the discussion it was felt by all workgroup members that the socialisation of costs in relation to unreconciled energy was sufficiently immaterial at 3TWh in comparison to 300TWh to accommodate the adoption of a 4-5 year model, especially as it was not clear what the impact of this reconciliation would be (i.e. if the sites were reconciled it may become apparent that they were deemed accurately). However it was on production of the socialised costs in relation to the NTS to LDZ interface that NGG felt that they would be in conflict with their licence conditions. Whilst we are aware that the overall figures of 2.6TWh and £20m of socialised energy if the 4-5 year model were adopted is impressive, we would note that this relates to a significant period of time since the adoption of a fixed restricted invoice billing period. As noted by NGG in "The Entry Capacity Transfer and Trade Methodology Statement", published 1 May 2007, the NTS throughput for 2005/06 was 1,067TWh. The total energy therefore that would have been socialised over a 5 year period (if a 4-5 year restricted invoice billing period had been introduced rather than the fixed back stop date) would account for 0.2% of the NTS' throughput for a single year. We would also note that the introduction of the 1 February 1998 back stop for invoices has led to the socialisation of energy, however despite requests NGG was unable to quantify this. We therefore agree with the other review group participants, excluding NGG, in supporting the adoption of a 4-5 year model.

Whilst we note Statoil's concerns with the introduction of the 4-5 year model in respect of their liabilities that may arise from the discrepancy between statute and the UNC, we would also note that the responsibility for ensuring the accuracy of these meters within the UNC sits with the User registered at these sites. It could be suggested that the fact that this mod proposal has been raised suggests that there is not sufficient confidence in the accuracy of these meters, thereby exposing them. As Users who are exposed to the risk that these meters are not accurate, we would suggest that the introduction of the 4-5 year model would provide a financial incentive on all Users who operate in the I&C market to ensure that their meters are accurate. Whilst we recognise that there would be a significant financial cost were this to be carried out for all meters within the UK, Users would be able to take the financial decision as to which meters were checked for accuracy.

EDF Energy, along with the majority of the other domestic suppliers, has also signed up to the ERA's domestic supplier agreements which states that we will not invoice a customer for charges that go back longer than a one year period. This means that under the current UNC rules, Shippers are exposed to invoices going back to 1 February 1998, but suppliers cannot bill our domestic customers

going back further than 12 months. Given the size of the domestic market compared to the I&C market, we would suggest that this exposure is greater than that faced by I&C Shippers. Reducing the restricted invoice billing period to 4-5 years would therefore be more aligned with this agreement than the current regime and the alternative proposals.

EDF Energy is also aware that some representations have been received relating to review group 0131 and the improvement in the meter assurance regime that may flow from this workgroup. Whilst it is not our intention to comment on the outcome of this review group within this response, as Proposer of review group 131 we would like to take the opportunity to provide clarity as to what this group is reviewing. Primarily this review group is concentrating on the processes and procedures that should be followed once a meter error has been identified that will impact on RbD to provide transparency to Users and potentially avoid complex disputes under the code. It is not looking at improving the meter assurance regime to reduce the number of meter errors that occur and are identified, just the procedures that will be followed once an error is identified. It is EDF Energy's firm belief that the responsibility for the accuracy of these meters sits with those Transporters who are responsible for them, and they should proactively be developing a meter assurance regime that should reduce the number of meter errors occurring.

We therefore believe that modification proposal 152V is the best of the three proposals, with 152AV and 152BV representing an improvement on the current arrangements. In relation to the particular points of the consultation EDF Energy would like to make the following comments:

2. Extent to which implementation of the proposed modifications would better facilitate the relevant objectives.

EDF Energy supports the Proposers of all the modifications in the relevant objectives that they have identified. However we believe that proposal 152V will facilitate these to a greater extent as the incentive to ensure accurate metering and invoices is greater under this proposal. This will therefore have a greater impact on the security of supply and encourage greater cooperation between the relevant downstream and upstream Transporters. Having a shorter invoicing period will also reduce the risk to Shippers impacted by RbD and intuitively lead to lower costs to xoserve than under the other proposals. Whilst we recognise that the risk to I&C Shippers who do not maintain accurate meters will be increased, we would note that this is greatly outweighed by the reduction in risk to RbD Shippers and if the proposal encourages greater meter accuracy within the I&C sector could further facilitate relevant objective A11.1 (f).

7. The implications for implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk.

As identified by the all of the Proposers, implementation of any of the proposals would reduce the level of contractual risk faced by Shippers as they will not be exposed to the risk of unexpected invoices that go back beyond the restricted invoice billing period. At the same time whilst it is recognised that Shippers will also not benefit from any credits that go back beyond this period we believe that it is the reduction in risk that will represent the most significant issue and result in a lower risk premium being passed on to customers.

I hope you find these comment useful, however please contact me should you wish to discuss these further.



Yours sincerely

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

Stefan Leedham
Gas Market Analyst
Energy Regulation, Energy Branch