

Julian Majdanski  
UNC Panel Secretary  
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West Midlands  
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04 April 2008

Dear Julian

**EDF Energy Response to UNC Modification Proposals 0195/0195A: “Introduction of Enduring NTS Exit Capacity Arrangements.”**

EDF Energy supports the implementation of Modification Proposal 0195 and 0195A.

Our ranking of the 0116 and 0195 Proposals in facilitating the achievement of the relevant objectives, and whether or not we support implementation of each, is as follows (most favourable first): 0116A (support), 0195A (support), 0195 (support), 0116CVV (support), 0116BV (do not support), 0116VD (do not support), 0116V (vehemently oppose).

EDF Energy welcomes the opportunity to respond to these proposals and provide our comments. EDF Energy continues to believe that the current arrangements remain suitable until evidence is produced to demonstrate that there is a fundamental failing in the current regime. We note from communications from NGG prior to this winter that tools are already available to it to manage flexibility in the event of a flexibility constrained day, and also note that we are not aware of these tools being required so far this winter. We remain concerned that the fact that interruption has not been required in recent years is being used as indicative of a cross subsidisation from firm to interruptible customers. EDF Energy would note that the UK has not experienced a particularly cold winter for a significant period, and we therefore believe that only detailed network modelling could demonstrate whether the level of interruption is currently required or not.

We are however concerned with the level of impact that the numerous exit reform proposals might have in terms of costs and on security of supply. We believe that requiring gas fired power stations to book flexibility capacity could adversely impact their ability to efficiently respond to fluctuating demand. Whilst this should have a limited impact on new build CCGTs that are likely to act as baseload supply due to their economics, we are concerned that limiting the responsiveness of CCGTs could jeopardise the UK's electricity system. We are therefore supportive of the modification proposals that avoid this risk.

We are also alarmed with the impact that exit reform will have on the UK's gas security of supply due to the large financial impact these proposals will have on UK Storage assets. With the supplies from the UKCS depleting many storage faculties are currently being built and more will be needed going forward to mitigate against the risks associated with the intermittency of new imported gas supplies from several different sources. The majority of the exit reform proposals would require storage facility operators to either book long term

firm entry capacity or risk a day ahead product. This creates significant risks and in particular the risk that the capacity is not available when required thereby limiting the operation of the asset. Purchasing long term firm capacity would mitigate against this risk, but at a considerable cost to storage operators and developers. Either way, with or without purchasing firm capacity for storage sites, this will severely hinder their efficient operation and therefore increase wholesale balancing costs.

EDF Energy has conducted some high level analysis into the impact that booking long term firm capacity would have both on existing storage facilities and facilities that are currently being built. We have utilised the exit capacity prices published in NGG's most recent Transportation Charges Statement for Gas Years 2007/08 and 2009/10. Our findings are that:

- Requiring storage facilities that are currently operational in the UK to book firm capacity in 2007/08 would increase annual costs by £5.1m, rising to £9.8m in 2009/10.
- If all the storage facilities that are at various stages of development were to have booked firm capacity in 2007/08 this would increase annual costs by £82.2m, rising to £172.9m in 2009/10.
- These costs are excluding the increase in wholesale prices and thus consumer prices from the extra volatility which would be generated as a result of storage sites being hindered in operating efficiently.
- There are locational impacts of this reform, however one of the areas with the highest costs is the Cheshire area, where there is numerous storage developments planned. These facilities will be competitively disadvantaged compared to some of the existing storage facilities, such as Rough.
- These costs could potentially wipe out the value of a large number of these storage projects and so result in their non delivery
- Storage assets, along with gas fields are not able to respond to locational signals as well as new build CCGTs are, and tend to be located dependent on geological conditions rather than the outcome of the Transportation Model.

EDF Energy is also aware that were storage operators to book long term firm exit capacity, then this could potentially create an artificial exit capacity constraint or inefficient investment to meet these unrealistic capacity requirements. In particular we would note that storage facilities have traditionally been seasonal users of exit capacity, injecting in the summer when demand is low and withdrawing in the winter when demand is high. However with the threat of transfer and trades, and substitution of exit capacity the only way to secure this capacity long term is to book annual products. If storage operators were to undertake this strategy, this would create an artificial signal for capacity as NGG would be required to ensure that exit capacity was available in the winter even when it was not required. In order to mitigate against this scarcity NGG could invest to meet the requirements, but this would also be inefficient as the capacity would not be required.

We are therefore fully supportive of modification proposals 0116A and 0195A, as it provides storage operators with the ability to manage their risk by booking a long term product that meets their requirements. We believe that this will have a beneficial impact to the UK as it will help to improve its security of supply position, which should have a consequential benefit to consumers through lower wholesale prices.

In addition to the comments raised in the draft modification report, EDF Energy would make the following observations:

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

**Standard Special Condition A11.1 (d): so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition between relevant Shippers:**

**0195A:** Modification Proposal 0195A removes a barrier to entry for storage developers that is present with all of the other exit reform proposals except 0116A. This should therefore encourage a more diverse range of supplies to meet the UK's peak day demand position and so be beneficial to UK prices and competition between Shippers. It is clear that the introduction of more onerous, complicated and costly capacity products will only serve to increase UK end user prices with little or no benefit.

**Standard Special Condition A11.1 (e): so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers' licences) are satisfied as respects the availability of gas to their domestic customers:**

**0195:** Modification Proposal 0195 would create additional costs to Shippers who wished to utilise or operate a storage facility. This would either be realised through booking firm entry capacity, or additional risks/ costs associated with booking either day ahead or interruptible capacity. This would therefore create an economic disincentive to utilise storage to meet domestic customer security standards and would therefore not facilitate this relevant objective.

**0195A:** Proposal 0195A is neutral to this objective, as it merely maintains the current incentives rather than creating new, or additional incentives. However given the negative impact that 0195, 0116V, 0116BV, 0116VD and 0116CVV have on this objective it can be seen that 0195A facilitates this objective to a greater extent than the other proposals.

**3. The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation**

**0195:** This proposal will allow CCGTs to respond to fluctuations in demand on the electricity system if required. This will therefore be beneficial to the electricity system's security of supply as it will not see CCGTs constrained due to an artificial flexibility constraint.

**0195A:** By removing a significant barrier to entry for storage developers this proposal will have a beneficial impact on the UK's wholesale market and security of supply position in comparison to modification proposal 0195.

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

**0195:** Shippers who utilise storage sites would be faced with a significant increase in operational costs either through booking firm long term entry capacity or through mitigating their increased risk exposure.

**0195A:** There would be no increase for costs for Shippers utilising storage assets, unless they chose to purchase long term firm capacity.

**8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party**

**0195A:** Arguably by removing a barrier to entry for storage operators and the beneficial impacts that this will have on security of supply 0195A will be beneficial to customers. In addition it should be noted that were insufficient storage facilities to be developed as

a result of the significant increase in costs, the UK would have to attract peak supplies through various import routes. This would have a negative impact on wholesale prices, which ultimately would be borne by customers. Alternatively if these storage projects did come on line, then the storage operators would seek to recover the additional costs, which again would be realised through higher wholesale prices.

#### **10. The Analysis of any advantages or disadvantages of implementation of the Modification Proposal**

##### **Advantages**

###### **0195:**

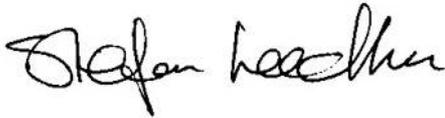
- Beneficial to UK's electricity security of supply
- Significantly less complex than 0116V, 0116CVV, 0116BV and 0116VD

###### **0195A:**

- Removes barrier to entry for storage projects.
- Beneficial to the UK's security of supply for both gas and electricity
- Improves competition between Shippers
- Beneficial impact to customers through improved security of supply and lower wholesale prices
- Significantly less complex than 0116V, 0116CVV, 0116BV and 0116VD

I hope you find these comments useful, however please contact me if you wish to discuss this response further.

Yours sincerely

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

Stefan Leedham  
Gas Market Analyst  
Energy Regulation, Energy Branch