

John Bradley
UNC Panel Secretary
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09 may 2009

Dear John

EDF Energy Response to UNC Modification Proposal 0209: “Rolling AQ”.

EDF Energy welcomes the opportunity to respond to this consultation; we fully support implementation of modification proposal 0209.

EDF Energy believes that implementation of this modification proposal will provide a significant benefit to consumers and Shippers. Under the current arrangements when a meter reading is used for calculating an AQ it is made unavailable for future calculations. This means that in order for a new AQ to be calculated 2 valid meter readings must be submitted that are at least 6 months apart. This can cause problems for sites that do not frequently submit meter readings, or where EDF Energy gains a site with limited historical meter reads. In certain scenarios this can result in a SSP site having to wait 18 months until its AQ is updated to reflect a change in consumption. For these 18 months this could result in too much energy being allocated to the registered Shipper and so creating a cost which has to be recovered. Modification Proposal 0209 removes this backstop and so ensures that AQs will be updated when a valid meter reading is submitted.

We would also note that due to the current business rules and arrangements, not only is there a significant time lag between changes in consumption and AQs, but AQs are generally consistently overstated. This can be clearly seen in the presentations provided to the development work group and review group which demonstrated that sites with “perfect” daily read history would have over inflated AQs because of the current arrangements. For all Shippers this causes issues. EDF Energy has undertaken significant work and dedicated significant resources to ensure that our AQs are as accurate as possible; however the current arrangements represent a barrier to this. In particular we would note that our average registered SSP AQ is much higher than our average SSP demand level, even though both are corrected to seasonal normal. This results in increased costs both through energy allocation and transportation charges which need to be recovered. EDF Energy believes that moving to a Rolling AQ will allow us ensure our AQs are accurate and so reduce costs to ourselves and our customers.

Finally we would note that a significant amount of our AQ work throughout the year is dedicated to data cleansing and accuracy. Whilst Shippers are required to validate SSP meter readings, the impact of an erroneous reading is not realised until the AQ review under the current arrangements. Under the current arrangements Shippers are unable to replace a meter reading were a subsequent meter reading has been submitted, and so by the time of

an annual AQ review the ability to correct erroneous data has passed. With a rolling AQ regime the impact of erroneous data will be felt more quickly and so Shippers will be able to respond and correct this data in a timely manner. This should therefore represent an opportunity to the industry to improve data quality and ensure any erroneous data is corrected.

In addition to the comments contained within 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 (c): so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

96.5% of Transportation charges are derived from the SOQ which in turn is calculated from the AQ and load factor. By enabling more accurate AQs this proposal will therefore ensure that the correct level of charges are incurred by customers. This will facilitate Standard Licence Condition A5.5 which determines that the Transporters should develop a charging methodology that ensures that charges reflect the costs incurred. In addition SLC A15 requires the Transporters to develop an Agency Charging Statement which reflects the costs incurred. Where the Transporters to propose changes to the ACS so that charges are based on capacity then these would also be more cost reflective. UNC Modification Proposal can therefore be seen to facilitate A5.5 and potentially facilitate A15 and so therefore facilitate A11.1 (c).

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

In addition to ensuring that costs are correctly targeted this proposal will benefit those Shippers who have processes and procedures in place to support these arrangements. For I&C Shippers with cost pass through contracts this could therefore provide a competitive service that they could offer their customers to help reduce their costs. Other I&C Shippers would then have the option of providing this service or introducing other beneficial arrangements. This proposal could therefore encourage competition in the I&C market through the development of bespoke services that Shippers could offer to consumers.

We would also note that in the current socio-political environment Shippers and Suppliers are attempting to differentiate themselves through green energy services. However the benefit of reducing energy consumption is limited if an immediate impact on costs is not witnessed. This proposal will therefore help support Shippers and Suppliers who are offering energy reduction services and initiatives by ensuring a decrease in revenue is matched by a decrease in costs.

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 ... are satisfied as respects the availability of gas to their domestic customers;

This proposal will not provide any additional incentives on suppliers above those already present. However this proposal will ensure that more accurate AQs are registered. In general EDF Energy believes that SSP AQs are overstated, therefore this proposal may make it easier for suppliers to meet their supply security standards.

4. The implications for Transporters and each Transporter of implementing the Modification Proposal:

EDF Energy believes that the setting of AQs and ensuring accurate AQs are a core service. We therefore believe that it is appropriate that the costs of implementing this proposal should

be recovered through allowed revenues. If an allowance for this change has not been included within the GDPCR then we believe Ofgem should allow for this at the next GDPCR.

However EDF Energy would also note that the costs for implementing this proposal provided through the ROM are based on changes to the current systems. Given that Project Nexus represents the opportunity to redesign systems and functionality we believe that the costs of implementing this proposal should be greatly reduced.

EDF Energy would also prefer for this proposal to be implemented and Rolling AQ to be delivered as early as possible. Whilst we recognise the benefits of implementation prior to Nexus are quickly reducing, we continue to believe that the benefits outweigh the costs and so this should be delivered as soon as possible. If this proposal is to be delivered as part of Nexus only, then we would urge a phased approach and this being one of the first elements to be delivered in 2012.

In terms of operating costs EDF Energy believes that implementation of this proposal will result in a reduction in operating costs for the Transporters' system. In particular we would note that this proposal is recommending an automated solution with significant validation being carried out on the part of Shippers. This should reduce manual intervention on behalf of users reducing costs and also flatten the work profile throughout the year.

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

EDF Energy believes that this proposal will have no impact on our operational costs. EDF Energy already approaches AQs as a business as usual activity. This proposal will therefore not increase the operational costs we face, but may change how we work. In terms of systems costs faced by EDF Energy, this will depend on when it is implemented. If this proposal is implemented immediately then we would face significant systems costs of up to £1m – however we believe that the benefits outweigh the costs. If this proposal were to coincide with our system replacement then there would be no costs, as we would build systems to cope with this regime and not the current process.

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

Advantages

- Similar to arrangements in electricity. This could therefore offer benefits to dual fuel Shippers if they can save costs by replicating IT systems.
- Improved data quality.
- Makes use of meter readings when they are submitted rather than several months later.
- Encourages more meter readings.
- Consumers should benefit from more accurate bills as when meter reading history is poor bills are estimated based on AQs. More accurate AQs should result in more accurate bills.

15. Proposed implementation timetable (including timetable for any necessary information system changes and detailing any potential retrospective impacts).

EDF Energy believes that this proposal should be implemented as soon as possible and prior to Nexus.

I hope you find these comments useful, however please contact my colleague Stefan Leedham (stefan.leedham@edfenergy.com, 0203 126 2312) if you wish to discuss this response further.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Seb Eyre".

Dr. Sebastian Eyre
Energy Regulation, Energy Branch