

Julian Majdanski  
UNC Panel Secretary  
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Dear Julian

**EDF Energy Response to UNC Modification Proposal 0216: “Introduction of an Additional Discretionary Release Mechanism for NTS Entry Capacity” and UNC Modification Proposal 0216A: “Introduction of Additional Pay-as-Bid Auctions for NTS Entry Capacity”.**

EDF Energy welcomes the opportunity to respond to this consultation; we support implementation of both modification proposal 0216A and 0216. In terms of preference we prefer 0216A to 0216.

As a general principle EDF Energy believes that NGG should release all the capacity that is available on a day, including non-obligated in a non-discriminatory manner. We believe that this will have a beneficial impact on the UK’s security of supply, on competition and should help to lower wholesale prices as this will ensure that gas is not artificially constrained out of the UK. EDF Energy is aware that both proposals should facilitate the release of additional non-obligated entry capacity to the market for the winter of 2008/09. This could potentially allow more gas to reach the UK market than would have been the case, and so should be beneficial to both the UK’s security of supply and competition. However whilst we recognise that this is an improvement to the current regime we do not believe that it is the most effective solution. We would note that an extensive auction regime is already in place which could be utilised to release non-obligated capacity, rather than the introduction of additional ad hoc auctions. This would allow NGG to release entry capacity to the market as it determined, rather than in response to a Shipper request which could potentially be viewed as discriminatory. In addition we believe that a mechanism should be introduced which would allow Shippers to surrender capacity that is not required at an ASEP prior to any auction, rather than limiting it to just the RMSEC auction. We continue to believe that fundamental to the effective operation of the UK gas market is the requirement for the industry to develop and put in place an enduring regime for the release of entry capacity. We therefore welcome the developments that have taken place, but recognise that if this level of change were to continue indefinitely then it would have a detrimental impact on the UK’s security of supply position.

Modification Proposal 0216 would provide NGG with a carte blanche for the release of non-obligated entry capacity, with the terms and conditions for the release of any additional non-obligated entry capacity specifically sitting outside of the UNC. Whilst we are aware that NGG’s Licence requires them to provide a minimum of seven days prior to any NTS Entry Capacity release we would note that this notice period could be insufficient for the release of short term non-obligated entry capacity. Whilst the release of non-obligated entry capacity will be beneficial to the market, and an improvement to the current regime, the risks associated with such a short notice period will outweigh some of these benefits.

In particular we would note that for the majority of Shippers this seven day window is within their short term trading horizon, during which they are likely to have locked in trading positions, based on prevailing market information. As recognised by NGG this process would allow a Shipper to commence negotiations with NGG regarding the release of non-obligated entry capacity with the view of bringing additional gas to the UK market. This would provide the Shipper that has commenced negotiations with market sensitive information, and could be viewed as being detrimental to the operation of a competitive market.

UNC Modification proposal 0216A would mitigate against this issue by requiring NGG to provide the market with 28 days notice of any non-obligated capacity release. This would allow Shippers to build this information into their trading positions and so be beneficial to competition. In addition the inclusion of this rule within the UNC would provide certainty to Shippers, thereby reducing their risk exposure. This would also be beneficial to competition and should feed through into lower wholesale and retail prices. For clarity EDF Energy remains opposed to the inclusion of back stop dates within the UNC as they provide artificial deadlines for implementing regulatory reform and raising numerous UNC modification proposals to reset the back stop date can not be viewed as economic or efficient.

In relation to the specific points raised in the Draft Modification Report, EDF Energy would make the following comments:

**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;**

Standard Special Condition A6.1 requires the GTs to conduct their business in the manner best calculated to avoid any Shipper gaining an unfair commercial advantage. Modification Proposal 0216 would however give an unfair commercial advantage to a Shipper wishing to gain access to non-obligated entry capacity as they would be involved in discussions with NGG, and yet other Shippers would only become aware of this seven days or less before the auction. Due to this lack of transparency some Shippers may have locked in their trading positions and so be unable to take advantage of this release mechanism. Modification Proposal 0216 would therefore not facilitate this objective.

Proposal 0216A would however mitigate against this issue by providing the market with a minimum of 28 days notice. This would allow all Shippers to take advantage of this release mechanism if they chose to, and allow the market to build this information into its price setting mechanisms.

**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;**

A two round auction process facilitates price discovery by Shippers. It is therefore likely than any non-obligated price capacity released through this mechanism will be priced based on supply and demand fundamentals, rather than luck. This should be beneficial to competition between Shippers as the entry capacity should flow to those that value it most rather than those who have made the best guess. EDF Energy therefore believes that modification proposal 0216A better facilitates this relevant objective than proposal 0216.

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

**0216**

- Potentially provides Shippers who have entered negotiations with NGG with an unfair commercial advantage.

**0216A**

- Introduces an additional back stop date into the UNC.

I hope you find these comments useful, however please contact my colleague Stefan Leedham ([Stefan.leedham@edfenergy.com](mailto: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