

John Bradley
UNC Panel Secretary
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13 January 2009

Dear John

EDF Energy Response to UNC Modification Proposals 0230 & 0230AV: “Amendment to the QSEC and AMSEC Auction Timetables”.

EDF Energy welcomes the opportunity to respond to this consultation; we support implementation of modification proposal 0230AV, but do not support modification proposal 0230, for clarity our preferred modification proposal for implementation is 0230AV.

EDF Energy supports the intent of both modification proposals; however we do not believe that it is appropriate to have an 18 month gap between QSECs. In particular we would note that under the current arrangements Shippers entered the September 2008 QSEC on the understanding that there would be a subsequent QSEC in September 2009, and so their strategy would have been based around this. An 18 month gap between QSECs, that was not previously notified could therefore impact on this strategy and result in investment not being delivered in the timescales expected by Shippers. This could potentially result in Shippers not being able to bring gas to the market as early as expected. This could have a detrimental impact on the UK’s security of supply. It would therefore appear that there is an element of retrospectivity regarding modification proposal 0230.

We would note that whilst initial NTS maintenance plans are developed in October for the following calendar year, these are not finalised until April. Only once these plans have been published will Shippers be able to identify their precise entry requirements for the summer and co-ordinate their maintenance plans. Currently this can be facilitated through the timing of the AMSEC auction. We therefore support Modification 230AV proposal to retain the February AMSEC auction timing. However modification 230 proposes to move the AMSEC auctions to June every year. This would mean that Shippers would be required to book their summer entry capacity requirements through the previous year’s AMSEC auction with no view on NTS maintenance and whether they will actually be able to utilise this capacity.

In addition to the specific comments made in the proposals, 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;

Standard Special Condition A5 covers the development of charging methodologies by Gas Transporters. When auctions are used to develop charges, then the requirement of SSC A5.5 is to ensure that the reserve prices are developed to best promote competition. Arguably ensuring reserve prices are cost reflective will promote competition by reducing the likelihood of cross subsidisation between market participants. As recognised at the Gas Transmission Charging Methodology Forum (TCMF) on 04 December 2008, changing the dates of the QSEC auction will require NGG NTS to publish reserve prices for year N+2 in January, whilst currently this is undertaken in June. If any additional information becomes available between January and June every year that would impact on N+2 prices, then arguably charges would be less cost reflective, and so less likely to promote competition. Potentially therefore both modification proposals could have a detrimental impact on SSC A5 and so SSC 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 between relevant Shippers:

Modification proposal 0230 creates an 18 month gap between QSEC auctions. This therefore creates a risk that gas that Shippers were expecting to bring to the market can not make it to the market in the timescale originally envisaged. This will reduce the volume of supplies to the UK market and so could restrict competition between Shippers as to where they source their gas from.

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;

Implementation of either proposal will not create, or increase the economic incentives on suppliers to secure that their domestic customer supply security standards are satisfied. However if both proposals make it more likely that capacity will be delivered on time to bring the gas to the market, then they should both make it easier for suppliers to meet their domestic supply security standards.

In addition we believe that as modification proposal 0230AV does not introduce an 18 month gap between QSECs, then it is more likely that gas will be delivered to the UK. Thus 0230AV will help to ensure that suppliers can meet their domestic supply security standards to a greater extent than modification proposal 0230.

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

As previously noted proposal 230 would move the timing of the AMSEC auction to June every year. This would therefore require Shippers to book their summer entry capacity requirements in June the previous year before any maintenance plans have been published by NGG NTS. There is therefore a risk that Shippers book entry capacity in the summer only to subsequently find that it is unavailable due to maintenance plans. Therefore proposal 230 would not facilitate this relevant objective.

In addition as modification proposal 0230 creates an 18 month gap between QSECs there is a risk to Shippers that they are unable to bring their gas to the market when expected. Given that this proposal was not raised until after the September QSEC auction, Shippers have not had the opportunity to mitigate against this risk, and so this proposal could potentially be viewed as having retrospective implications for Users.

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

Under the current arrangements offshore producers can coordinate their maintenance plans with NGG NTS' maintenance and entry capacity purchases. By moving the AMSEC auctions to June there is a risk that these processes are no longer aligned, and so producers may plan maintenance in line with the ASMEC capacity bookings, only to find that it does not align with capacity availability due to NTS maintenance.

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

Advantages

Proposal 0230AV:

- Removes 18 month gap between QSECs which would be beneficial to competition, and security of supply.

Disadvantages

Proposal 0230:

- 18 month gap between QSEC auction which would have a detrimental impact on security of supply and competition.
- Creates risk that NGG NTS maintenance, offshore and storage maintenance and AMSEC auctions are no longer aligned.

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