eDF Trading

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UNC Modification proposals 246, 246A, 246B

EDF Trading welcomes the opportunity to comment on the combined consultation on UNC modification proposals 246, 246A and 246B.

EDF Trading believes improvements to the existing entry capacity security arrangements are necessary: in particular attempting to address the long lead time between a user committing to buy long-term NTS entry capacity and financially underpinning this commitment.

The draft modification report for proposal 246 identifies an aggregate sum of £119.5m of security being collected. The aggregate sum proposed by National Grid in Review Group 221: Review of Entry Capacity and the Appropriate Allocation of Financial Risk was £65m. National Grid has not justified why the higher sum of £119.5m is necessary. Any increase in the level of securitisation must be justified by a demonstrably higher level of risk on clearly higher level of risk – and this is not the case. Any increase in securitisation reduces the level of risk exposure for National Grid and if its proposal was implemented there should be a commensurate reduction in its allowed cost of capital under the price control. The failure of modification 246 to utilise the full range of credit tools means National Grid is effectively adopting an inefficient credit management policy.

Given these concerns, EDF Trading supports the two alternative proposals; 246A and 246B, which both seek to include the wider range of credit tools contained within TPD V 3.4.5 as acceptable tools for the securitisation of long term entry capacity holdings. It is appropriate and efficient for credit requirements and tools to be based, where available, on the credit rating of the respective company as this provides a robust measure of the risk of failure.

Artificially restricting the security tools to deposit deeds and Letter of Credit (LoC) means additional costs are being incurred by all players with no additional benefits. This will lead to higher costs for end customers. Greater flexibility through making available the full range of credit tools is therefore the most efficient approach particularly in the current credit climate where LoCs are increasingly more expensive.

Overall EDF Trading supports modification proposal 246B over 246A as it does not apply to existing capacity holdings and is therefore non retrospective. The assumptions used to justify the quantity of capacity secured can be significantly impacted by a new requirement that would impose additional costs.

Ofgem should undertake a full Impact Assessment to asses the costs and benefits of the various modification proposals. We would also like to suggest the inclusion of the option where National Grid purchases an insurance policy to safeguard against losses incurred through shippers' defaulting. The cost of this insurance policy could be recouped through shippers. We believe that this approach maybe a cheaper option for the industry as a whole and therefore worthy of being investigated further.

Shippers should also be provided with greater flexibility for the securitisation of QSEC capacity – for example by allowing them to increase and decrease the level of security lodged 14 days prior to the QSEC auction. The security to cover a shipper's anticipated additional capacity holding via a QSEC auction should be flexible through being varied until the closure of each QSEC bid window. This provides shippers with additional time to secure unexpected credit requirements as a consequence of unanticipated higher bids arising in the QSEC. Shippers should also have access to any surplus credit they may have lodged prior and during the QSEC auction. This will allow for more efficient credit management across the industry.

Besides the code modification route, other action steps as licence changes could also be investigated. For example, when a shipper defaults this could automatically trigger the reopening of NG's licence parameters if no investment has been undertaken – which would reduce the industry's ongoing potential liability.

Yours sincerely,

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