

Bob Fletcher  
UNC Panel Secretary  
31 Homer Road  
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West Midlands  
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10 September 2010

Dear Bob

**EDF Energy Response to UNC Modification Proposal 0327: "Alternative to Interim Allocation of Unidentified Gas Costs".**

EDF Energy welcomes the opportunity to respond to this UNC Modification Proposal.

We support implementation of Modification Proposal 0327 and our key points are as follows:

- 0327 represents a more realistic view of the levels of UAG and will be developed by the independent expert. This is not the case with either 0317 or 0317A, and so ensures that the current cross subsidy is removed at an earlier date.
- The methodology contained within 0327 is based on the assumption that initial energy allocation to the SSP and LSP sectors is accurate and RbD represents a mis-allocation of UAG costs. This is supported by the analysis conducted by TPA.
- 0327 represents an interim solution until the AUGÉ methodology is developed and finalised. At this point any inaccuracies will be corrected, although for clarity we expect these to be marginal.

The current arrangements under the UNC result in domestic customers funding all of the Unaccounted for Gas (UAG) costs. This is clearly inequitable, representing a cross subsidy from the SSP to LSP market. We note that were this cross subsidy to be paid through the treasury then this would be subject to scrutiny as state aid by the European Commission to ensure that there were no anti-competitive effects. Therefore any proposal which seeks to address, or reduce this cross subsidy will represent an improvement to the current situation and so should be implemented.

We believe that the methodology contained within 0327 represents a reasonable solution for the allocation of Unaccounted for Gas (UAG) costs to the LSP sector. The methodology contained within 0327 is based on the assumption that initial allocation is accurate and UAG costs are correctly apportioned to the SSP and LSP sectors. This is supported by the analysis conducted within

TPA's report<sup>1</sup>. This found that initial allocation of energy is "reasonably" accurate with RbD resulting in energy allocation becoming less accurate. This is further supported by the information presented to the 0126 review group on the effects of RbD<sup>2</sup> over time. Therefore if initial allocation is accurate then RbD represents the UAG that was originally allocated to the LSP sector along with genuine reconciliation caused by demand reductions at these sites. The methodology in 0327 removes the level of genuine reconciliation caused by decreases in consumption at the LSP sector level that will then be corrected in the annual AQ review process and so addresses this issue. Further by taking a 4 year average of RbD proposal 0327 ensures that any anomalies caused by weather patterns are removed.

Whilst we recognise that the figures contained within 0327 are a significant increase on those proposed in 0317 and 0317A we believe that these are more reflective of UAG costs that will be apportioned through the UNC as modified by 0229. Further 0327 contains a mechanism to correct any mis-allocation compared to the UAG methodology, although we believe that this will have less of an impact than were 0317 or 0317A implemented.

In relation to the particular sections of the modification report EDF Energy would make the following specific comments:

**3. 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 subparagraphs (a) to (c) the securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;**

We agree with the proposer that 0327 facilitates this relevant objective by reducing the cross subsidy that currently occurs from the domestic to I&C market, which would be beneficial for competition in these two sectors.

**Standard Special Condition A11.1 (f): so far as is consistent with subparagraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;**

We believe this proposal facilitates this objective as it ensures a more accurate allocation of energy than under the current arrangements.

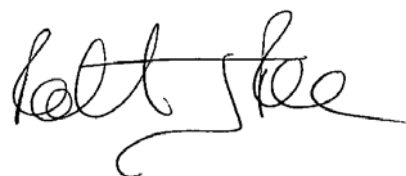
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<sup>1</sup> See paragraph 3.44 of TPA Report available from: <http://www.ofgem.gov.uk/Licensing/GasCodes/UNC/Ias/Documents1/TPA%20response%20to%20identification%20and%20Apportionment%20of%20Costs%20of%20Unidentified%20Gas.pdf>

<sup>2</sup> Available from xoserve's slides at: <http://www.gasgovernance.co.uk/0126/140307>

I hope you find these comments useful, however please contact Stefan Leedham ([Stefan.leedham@edfenergy.com](mailto:Stefan.leedham@edfenergy.com), 020 3126 2312) if you wish to discuss this response further.

Yours sincerely

A handwritten signature in black ink, appearing to read "Rob Rome".

Rob Rome  
Head of Transmission and Trading Arrangements  
Corporate Policy and Regulation