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Dear Julian

EDF Energy Response to UNC Modification Proposals 0116/0116A/0116B/0116C “Reform of the NTS Offtake Arrangements”.

EDF Energy does not support implementation of Modification Proposal 0116V
EDF Energy supports the implementation of Modification Proposal 0116A
EDF Energy wishes to comment on Modification Proposal 0116BV
EDF Energy supports the implementation of Modification Proposal 0116CV
EDF Energy wishes to comment on Modification Proposal 0116VD

Amongst these proposals we would rank our support for them in the following order (most supported first): 0116A, 0116CV, 0116BV, 0116VD, 0116.

EDF Energy has been contributing to the debate on NTS Exit reform for several years now and welcomes the opportunity to respond to these modification proposals. We are concerned that the industry is being forced to pursue arrangements for NTS Capacity when it is still not clear that there is a need to do so. EDF Energy therefore disagrees with Ofgem’s reasons and arguments for reform which are based on economic theory rather than operational requirements. We are concerned that modification proposal 116V has been developed with a narrow focus on NTS Exit Capacity issues, and so has failed to address the wider ranging issues that this proposal will impact upon. We believe that for such a fundamental reform of the industry a holistic review is required identifying the impact that these reforms will have on all market participants in both gas and electricity. We therefore do not support implementation of NGG’s proposal 116V which reflects their view of Ofgem’s interpretation of a theoretically efficient market.

We recognise and applaud the significant work that Ofgem has undertaken in the past to achieve our liberalised market, but we believe now is the time for Ofgem to take a less active role and respond reactively to the issues that the market has identified. We would further urge Ofgem to adopt the core principles of better regulation and ensure that in the future any regulation is less complex and better than the regulation that it will replace.

Our Comments are as follows:

Extent to which implementation of the proposed modification would better facilitate the relevant objectives of the Gas Transporters Licence Standard Special Condition A11.1

(a) The efficient and economic operation of the pipeline system to which the licence relates.

Mod 116V: EDF Energy believes that this modification is fundamentally flawed by creating and offering an annual product that is required seasonally and diurnally for flexibility capacity. We believe that this will create an unnecessary constraint on the system for a product that historically has never been constrained and is available as a bi-product of

capacity. We believe that this product is discriminatory amongst class of Users, will negatively impact on security of supply, and fails to ensure adequate anti-hoarding mechanisms are in place as there is no concept of Use It or Lose It (UIOLI) requirements. We note that this modification would reduce the amount of within day balancing that storage sites can provide when the system is long, as they would be required to purchase an annual flexibility capacity that they only require in the summer and shoulder months. We believe that by placing an annual value on flexibility without any UIOLI requirements, this will artificially inflate the cost of flexibility and price it out of the reach of storage facilities and Users who have capacity in them. By removing flexibility from storage this modification will also remove the flexibility that bi-directional sites can provide to the system. This could result in increased balancing actions by NGG when the system is not balanced which is neither economic nor efficient. It is also not clear from this proposal whether flat and flexibility capacity purchases will be based on physical or commercial flows, further impacting on bi-directional sites. Whilst overrun calculations will be based on net physical flows, it appears that the capacity products will be purchased for commercial flows. This would result in bi-directional sites operating within their commercial requirements, and so prevent Users from providing a physical balancing service to the system. This would increase costs for both NGG as residual system balancer and for Users with interests in storage assets.

Mod 116A: EDF Energy notes that in order for the interim arrangements to be implemented they would have had to better facilitate the relevant conditions. By maintaining these arrangements and removing the cut off date, EDF Energy believes that this modification will ensure that bi-directional sites will be able to continue to provide their flexible service and ensure that Users respond to the established and effective market signals. This will ensure that Users continue to be incentivised to balance their position, and so reduce the balancing actions required of NGG as Residual Balancer.

Mod 116BV & 116VD: EDF Energy recognises the improvements that these proposals are attempting to make to NGG's, however we believe that mod 116 is fundamentally flawed, and so therefore are these proposals. We believe that increasing the margin for error, will align the proposals with the standards set down in the current NExAs, and will provide some marginal flexibility to bi-directional sites. Further by loosening the capacity overrun definitions this may encourage Users to respond to market signals and do what is best for the system and overrun, however we would question how this is an improvement over the current arrangements.

Mod 116CV: EDF Energy welcomes the improvements that this proposal has made by removing the requirement to purchase flexibility capacity. We believe that the long term investment signals that this modification would provide through the advanced registration of capacity 3 to 6 years ahead will allow Users to signal their intended capacity requirements. The short term auctions will also ensure that capacity is released in the constrained period to those sites that value it most – which is theoretically economic and efficient. This solution is therefore the most acceptable to EDF Energy after the no change option, however we would note that this proposal does not comply with the principles of better regulation as these arrangements would not be simpler and less complex than those that it would replace.

Mod 116VD: In addition to the comments above, we would note that this proposal appears discriminatory to GDNs as they are able to request pressure increases or decreases, thereby potentially overcoming the requirement to book additional capacity. Further GDNs are not the only Users who would receive a benefit from being able to book pressure commitments. It would therefore appear that if the general principle of due discrimination is acceptable then mod 0116A should be implemented, however if it is not, then all Users should be able to book pressure increases or decreases.

(b) so far as is consistent with sub-paragraph (a), the coordinated, efficient and economical operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.

Mod 116V: EDF Energy fails to understand how requiring Gas Distribution Networks (GDNs) to book flat and flexibility capacity through complex and bureaucratic auctions is good the efficient and economic operation of their pipeline systems. As previously stated the creation of an annual product for flexibility capacity that is required seasonally will artificially increase the cost of this product which is neither economic nor efficient.

Mod 116A: EDF Energy notes that the current arrangements have proven to work well, allowing the GDNs to signal their capacity requirements several years ahead, providing investment signals and enabling the coordinated, efficient and economic operation of the pipeline system. These arrangements are simpler to implement, and allows the development of more market led solutions to any issues that may be identified by market participants should they arise.

Mod 116BV & 116VD: EDF Energy believes that the same arguments against 116 apply to these proposals in relation to this condition.

Mod 116CV: This proposal will extend the current arrangements for booking flat capacity out to 8 years, allowing Gas Transporters to ensure the coordinated, economic and efficient operation of their systems. The short term auctions would also ensure that capacity was released in the constrained period to those that valued it most, however it is not clear from this proposal whether this will ensure that capacity is released to the GDNs when they require it. This proposal will therefore facilitate this licence condition to a greater degree than proposals 116V, 116BV and 116VD; however we do not believe that this represents an improvement on the current arrangements.

(c) so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence.

Mod 116V: As previously discussed this proposal will have a negative impact on security of supply for sites that may wish to utilise flexibility and provide a service to the system, but are unable to do so as flexibility is unavailable due to the lack of UIOLI requirements. We note that any site that wished to reduce demand within day would have had to have purchased flexibility in order to provide this service to the market. We do not believe that these sites will purchase flexibility on the chance that the system may require it, and note that it is likely that flexibility from these sites will be required when demand is high and flexibility is constrained. In order to avoid the penal overrun arrangements, it is likely that sites will chose to flow to levels within their flexibility purchases (if any) and will adopt a purchasing strategy to enable them to achieve this at least cost. This will significantly reduce the amount of demand side response available to the market and so have a detrimental impact on security of supply.

Mod 116A: By maintaining the current arrangements for capacity this proposal ensures that the market arrangements which have been developed to allow customers to provide a demand side response are maintained. This will allow participants to provide a demand side response service when required, aiding security of supply and so facilitating achievement of this licence condition.

Mod 116BV & 116VD: The larger error allowance and weaker capacity overrun calculations ensure that these proposals facilitate this licence condition better than modification proposal 116, as customers and bi-directional sites will be less penalised than under NGG's proposal. However we note that fundamental flaws associated with flexibility capacity are still present in these proposals, as the concept of purchasing flexibility capacity is still present. We therefore believe that these proposals will have a detrimental impact on security of supply, and so do not facilitate achievement of this objective.

Mod 116CV: EDF Energy believes that this modification proposal will better facilitate achievement of this relevant objective. This proposal, like 116, will require Users to indicate their long term capacity requirements to NGG, or purchase their capacity through the annual auctions. This will ensure that NGG responds to Users' long term signals and so ensure that required capacity is delivered, benefiting security of supply. We would however note that going forward the growth in demand on the NTS is likely to come from the GDNs, with some coming from the connection of CCGT power stations. GDNs currently have the ability to signal their long term capacity requirements, were it not for a sunset clause. We note that currently there are proposals for all power stations to signal their long term entry requirements onto the electricity system, and it could be suggested that these reforms would provide an economic and efficient identification of CCGTs' gas system requirements. Modification Proposal 116C would also ensure that sites that can provide flexibility to the system when required are not penalised for providing this service, and so ensure that the current market arrangements are maintained, and the system's security is protected.

(d) so far as is consistent with sub-paragraphs (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.

Mod 116V: EDF Energy concurs with EON's legal opinion in that whilst this modification may introduce competition between GDNs and Users for flexibility capacity, this competition is discriminatory as GDNs and Users are materially different in their requirements for flexibility, their ability to purchase flexibility and how they fund the purchase of flexibility. We would note that shippers operate in a competitive market, whilst GDNs are regulated monopolies with allowed revenues. If implemented this modification would discriminate against Users who operate or have capacity in storage facilities, as their ability to use these facilities to balance their position within day would be removed with the introduction of an annual flexibility product. We therefore believe that implementation of this proposal would be detrimental to securing effective competition between shippers. Further as this modification proposal would require Users to book long term capacity for directly connected sites for 3 to 6 years out, with no requirement for this capacity to be transferred to an incoming User, this proposal will have a negative impact on competition between suppliers. In particular we note that were a supplier to book long term capacity at a site, and the site were to change supplier, then the outgoing supplier would be responsible for the long term capacity that it had booked, unless the capacity were transferred. However the incoming supplier will now from baselines etc, that the long term capacity has been booked, but will not be utilised by the outgoing supplier. They may then choose to book this capacity on an interruptible basis in the knowledge that it will always be available. This would represent a risk to the supplier that could be mitigated by requiring long term contracts, reducing competition between suppliers, or by withdrawing from the market.

Mod 116A: EDF Energy believes that the current market mechanisms create competition between the classes of Users that operate in the market, and do not create competition between classes of Users that are not natural competitors. We believe that maintaining these arrangements will continue to facilitate achievement of the relevant objectives, and ensure that different classes of Users are not discriminated against by being required to compete for an artificially constrained product with other classes of Users. In particular we note that it is perverse that NGG are proposing to treat all Users the same when booking flat and flexibility capacity, but propose to provide arrangements for GDNs to increase or decrease their offtakes pressures, but not other offtakes, and are consulting on a discounted SO Commodity charge for storage Users. If, as NGG and Ofgem suggest, all Users are equal then similar arrangements should be applied to all Users. EDF Energy does not however believe all Users are equal, we believe that a GDN is fundamentally different to a bi-directional site, which is fundamentally different to a large commercial load. We believe these differences should be recognised and E.ON's modification proposal should be implemented.

Mod 116BV & 116VD: Whilst these proposals will create more room for competition between these classes of Users than Modification Proposal 116, we do not believe that this proposal will facilitate the achievement of this relevant objective to a greater degree than the current arrangements.

Mod 116CV: It is clear that this proposal will represent an improvement on modification proposal 116V, as these arrangements are simpler and less complex to administer. We would further note that by removing the requirement to book flexibility this proposal will not be discriminating against those Users who utilise storage assets, and so will not be detrimental to competition.

The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation.

Please see our comments above on how we believe these proposals will impact on security of supply.

The implications for Transporters and each Transporter of implementing the Modification Proposal, including a) implications for operation of the System.

Mod 116V: EDF Energy was surprised to see the inclusion of capacity buy back tools similar to those rejected by Ofgem in modification proposal 0086. However having supported implementation of these buy back tools, EDF Energy continues to believe that these will be beneficial to security of supply. However as previously noted we believe that the introduction of a seasonal product, constrained through annual rights with no effective UIOLI arrangements will not be beneficial to security of supply. We believe that a flexibility product will effectively reduce the flexibility that storage users can provide to the system, and so have a negative impact on security of supply and operation of the system. We would further note that this proposal will introduce an additional level of complexity to the system that will not be beneficial to the operation of the system.

Mod 116A: The implementation of this proposal would not have an impact on the operation of the system as the current arrangements will be maintained. We are aware that under these arrangements there is no ability to reserve incremental capacity unless an ARCA is required;

however we believe that this is a minor issue that can easily be overcome by a simple modification proposal.

Mod 116BV & 116VD: As with modification proposal 116V, these proposals will have a negative impact on the operation of the system by artificially constraining the flexibility that sites could provide, although the impact of this is reduced through the increased margins of error that are present. However this does not represent an improvement on the current arrangements.

Mod 116CV: Whilst representing a significant improvement over proposals 116V, 116BV and 116VD, we would note that the additional complexity that this proposal will bring will have an implication on the operation of the system. However the complexity associated with this proposal is significantly less as the current arrangements for booking and utilising flexibility are maintained.

The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal.

EDF Energy has no comments to make on this subject in addition to what is already in the modification proposals.

The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users.

EDF Energy has no comments to make on this subject in addition to what is already in the modification proposals.

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

Mod 116V: The costs of implementing this proposal on EDF Energy are considerable, and we will be providing a full breakdown of these costs to both Ofgem's and NERA's impact assessment on a confidential basis. The contractual risks associated with this proposal are also significant, impacting on our storage and generation assets and our retail business. We are concerned that the proposal will limit the flexibility available to the market from storage facilities, reducing the service that these facilities may provide to balance the system, especially fast churn facilities. This proposal will also impact on the cost targeting for our retail business, as it remains unclear how the NTS Exit Capacity charges will be passed through to the end consumers. Further the complexity associated with this proposal in itself represents a significant cost and contractual risk to Users, especially as seasonal products are being constrained. EDF Energy welcomes the impact assessments that are being conducted by both Ofgem and NERA and will be feeding our detailed cost impacts into these.

Mod 116A: As this proposal will maintain the current arrangements we do not believe that there are any additional risks or costs associated with the implementation of this proposal that are not already present.

Mod 116BV & 116VD: Our comments on 116V can also be applied to these proposals.

Mod 116CV: This proposal will remove the significant risks and costs associated with the introduction of the flexibility product. Further this will also introduce the rights to book long term

exit capacity that does not require an ARCA, and so will remove the risk that a User may hold associated with this.

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

Mod 116V: EDF Energy has serious concerns about the implication this modification proposal will have on the electricity system, and limit the flexibility that can be provided to that system by CCGTs. In particular we note that this proposal may prevent CCGTs operating other than base load supply, and artificially limit the flexibility that these assets may be prepared to offer to the system. This could result in oil plant operating to provide flexibility to the system, with its associated environmental impacts, and impacting on the cash out price. We do not believe that these issues have been adequately explored, and that by attempting to overcome a theoretical problem with gas capacity, this modification will create a real problem for the electricity market.

Mod 116A: This proposal will have no incremental impacts above the current arrangements as they are maintained.

Mod 116BV & 116VD: Although a slight improvement over proposal 116V, we believe the same comments applied to 116V above can also be applied to these proposals.

Mod 116CV: Implementation of this proposal will ensure that CCGTs will continue to be able to offer flexibility services to the electricity market, whilst facilitating long term User commitment in terms of flat capacity.

Analysis of any advantages or disadvantages of implementation of the Modification Proposal
We have identified the following advantages:

Mod 116V:

- Long term User commitment encouraging the efficient, economic and coordinated development of the NTS system.
- Introduces capacity buy back products similar to those rejected by Ofgem in modification proposal 0086.

Mod 116A:

- Maintains current arrangements which are simple to administer, and demonstrated to work.
- Does not artificially constrain flexibility.
- Does not have a detrimental impact on security of supply.
- Maintains current competitive signals between Shippers and Suppliers.
- Discriminates between classes of Users when discrimination is due.
- No negative impact on electricity systems.

Mod 116BV:

- Long term User commitment encouraging the efficient, economic and coordinated development of the NTS system.
- Introduces capacity buy back products similar to those rejected by Ofgem in modification proposal 0086.
- Marginal improvements over 0116V due to the wider margins of error and loser capacity overrun calculations.
- Aligns margin for error with operational practices in NExAs.

Mod 116CV:

- Long term User commitment encouraging the efficient, economic and coordinated development of the NTS system.
- Introduces capacity buy back products similar to those rejected by Ofgem in modification proposal 0086.
- Does not artificially constrain flexibility.
- Does not have a detrimental impact on security of supply.
- Maintains current competitive signals between Shippers and Suppliers.
- Discriminates between classes of Users when discrimination is due.
- No negative impact on electricity systems.

Mod 116VD:

- Long term User commitment encouraging the efficient, economic and coordinated development of the NTS system.
- Introduces capacity buy back products similar to those rejected by Ofgem in modification proposal 0086.
- Marginal improvements over 0116V due to the wider margins of error and loser capacity overrun calculations.
- Aligns margin for error with operational practices in NEXAs.

We have identified the following disadvantages:

Mod 116V:

- Artificially constrains a seasonal product by releasing it on an annual basis, with associated impacts on security of supply and the electricity system.
- Complex and costly to administer.
- Discourages competition between Shippers and Suppliers.
- Fails to discriminate between classes of Users when discrimination is due, but discriminates between classes of User in terms of pressure bookings.
- No UIOLI arrangements for flexibility product, enabling hoarding and creating artificial constraints.
- Negative impact on volumes of DSR available to the market.

Mod 116A:

- No long term commitment models preventing Users from reserving capacity unless an ARCA is required. We would however note that this can be overcome by a simple modification.

Mod 116BV:

- Artificially constrains a seasonal product by releasing it on an annual basis, with associated impacts on security of supply and the electricity system.
- Complex and costly to administer.
- Discourages competition between Shippers and Suppliers.
- Fails to discriminate between classes of Users when discrimination is due, but discriminates between classes of User in terms of pressure bookings.
- No UIOLI arrangements for flexibility product, enabling hoarding and creating artificial constraints.
- Negative impact on volumes of DSR available to the market.

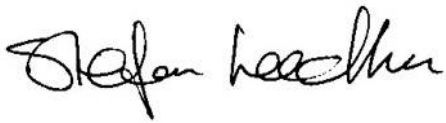
Mod 116CV:

- Auctions are more complex and costly to administer than the current arrangements.

Mod 116VD:

- Artificially constrains a seasonal product by releasing it on an annual basis, with associated impacts on security of supply and the electricity system.
- Complex and costly to administer.
- Discourages competition between Shippers and Suppliers.
- Fails to discriminate between classes of Users when discrimination is due, but discriminates between classes of User in terms of pressure bookings.
- No UIOLI arrangements for flexibility product, enabling hoarding and creating artificial constraints.
- Negative impact on volumes of DSR available to the market.

Yours sincerely

A handwritten signature in black ink that reads "Stefan Leedham".

Stefan Leedham
Gas Market Analyst
Energy Regulation, Energy Branch