

**Our Ref
Your Ref**

Ndidi Njoku
Industry codes manager
Office of Gas and Electricity Markets
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London
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SENT BY E-MAIL

Date 12 May 2006

Dear Ndidi,

Review of Reconciliation by Difference (RbD)

EDF Energy plc owns a number of companies active in the UK electricity and gas markets. Among these are subsidiaries responsible for the operation of power distribution networks, the operation of power stations and the sale to end users of electricity and gas. We are grateful for the opportunity to respond to this consultation and our comments on the issues raised in it are detailed below. We confirm that our response can be published on the Ofgem website.

1. Given the original rationale and benefits of RbD, do you consider it remains valid under the current GB Gas arrangements?

EDF Energy generally believes that the current RbD arrangements are still an appropriate way of calculating, apportioning and reconciling unallocated metered volume across the industry. Despite this, we believe that improvements can still be made to the process to ensure that the costs of RbD are equitably targeted across market sectors and customer groups. However we do not believe that a wide ranging review is necessary at this time and a review should not be instigated outside the proper UNC governance provisions.

2. Are the costs and benefits of the RbD process transparent to the industry, and if not how can transparency be improved?

EDF Energy does not believe that the process is as transparent as could be. For example, the industry has no visibility over the accuracy of NGG's billing or statistics on how well the process has been run over the years and whether it is improving or not. We believe as part of the audit there should be an independent sign-off of NGG's estimation of total LDZ Domestic AQ value used to pro rata volumes and costs under the RbD process to domestic suppliers.

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3. Do the various RbD related industry work groups provide sufficient governance and transparency of the RbD arrangements?

We believe there is sufficient governance and transparency in RbD however, some of the meetings are not tailored to meet clients needs being sometimes held at impractical locations without the option of remote access (video/teleconference). Such facilities at meetings would increase the potential for a greater number of interested parties to participate in the process.

4. Is there sufficient transparency of the data or the information xoserve provides to the Industry?

No comment.

5. Is the scope of the current RbD Audit appropriate?

See answer to Qu.2.

6. Are there sufficient incentives on all parties to limit the size of RbD?

We believe there are sufficient incentives on shippers to limit the size of RbD because of the risks and costs associated with balancing portfolios ahead of the day and the price at which they are eventually reconciled under RbD several months later. However, currently there is no incentive on NGG to get this process as accurate as possible. Incentives on NGG could improve the NDM Attribution process which allocates volume to each EUC which would lead to better cost targeting.

7. Do you consider there is sufficient transparency in the operation and accuracy of industry processes such as the AQ review and shrinkage calculations?

The AQ Process has improved over the years with the process becoming more transparent but given that the accuracy of the whole process depends on how accurate AQ's are we believe there should be more incentives on NGG to ensure the process is optimised to produce more accurate AQ figures.

8. Do you consider the existing governance arrangements around these processes to be appropriate?

We believe the current governance arrangements under the UNC are sufficient and would expect any change to emanate from the UNC via a modification proposal or a Review proposal rather than through any Ofgem action. We do not believe a fundamental review is warranted at this stage.

9. Do you consider there are there appropriate incentives in place on relevant parties to ensure the timeliness and accuracy of these processes?

We believe the current arrangements provide sufficient incentives to provide data on time but we believe the incentives on the accuracy of the data could be increased as mentioned above to improve data quality.

10. Do you consider that the timing and scope of the AQ Review is appropriate?

No comment

11. What would the likely costs and benefits be of introducing Meter Point Reconciliation to all supply points?

We believe this would provide significant benefits as the accuracy of allocations and thus cost targeting would improve significantly. However, we are unsure whether this would outweigh the costs and therefore this piece of work is something a UNC Review Group could undertake if industry participants consider it necessary. We understand that the original RbD process from day one of Network code in 1996 was based on actual meter reads but wasn't successful so it might be worthwhile Ofgem reviewing why this was and publishing their findings.

12. What conditions would need to be satisfied in order for individual Meter Point reconciliation to be practicable, and to what timescale?

No comment

13. Would it be feasible for shippers to choose whether their supply point should be individually reconciled or processed through RbD?

EDF Energy believe this would be a "nice to have" but we recognise the complications such arrangements would introduce and the impact it could have on the overall effectiveness and efficiency of the process. We would welcome Ofgem's view on this point.

We hope you find our comments useful. If you would like to discuss any of our comments further please contact me on the number below.

Yours sincerely

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