Eddie Blackburn
Regulatory Frameworks
National Grid
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Dear Eddie

EDF Energy response to consultation NTS GCM09: "TO Over Recovery Mechanism".

EDF Energy welcomes the opportunity to respond to this consultation and support the implementation of this proposal.

We support the concept that TO revenues should be collected 50% from entry and 50% from exit, and any over or under recoveries should also be targeted at those areas where they have arisen. The current mechanism for smearing any over recovery from entry capacity charges does not appear to facilitate this, and so exposes Shippers to the risk that any over recovery will not be smeared back to them directly. We are however concerned with the suggestion that reducing the notice periods for any reductions in the TO Commodity charge could also ensure that costs were correctly targeted. Whilst we recognise that this is one option for targeting any over recovery, we are concerned that this concept could also be applied to increasing TO and SO Commodity charges. As an NTS Shipper we believe that stability and predictability of charges are equally important, and reducing the current notice period for these charges would introduce an additional risk that would ultimately be paid for by consumers.

We would also seek clarity on the instances when an over or under recovery from TO Charges has occurred and whether they have related to exit or entry charges since the current charges were introduced. We believe that this is important to informing any future debate to ensure that costs are correctly targeted and the correct mechanisms are in place to accommodate this. However we also recognise that this is a debate that is still to take place and not part of this consultation. In relation to the particular proposals within this consultation, we would make the following observations:

- The current trigger of 10% does not align with NGG's licence conditions to not over recover revenue by more than 4% in a single formula period or by more than 6% over any two formula periods. Moving the trigger in line with these licence conditions would therefore appear appropriate.
- However given that NGG also aims to recover 50% of their TO revenue from entry charges, we would question why NGG has not chosen a trigger aligned with this objective?
- Making the full over recovery amount available to offset buy backs from the month when the over recovery was triggered would reduce the chance of any over recovery remaining

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at the end of the formula year, whilst requiring Shippers to fund some of the buy back costs due to the smear back calculations.
- Using any over recovery at the end of the formula period to credit Shippers for buy back costs prior to the mechanism being triggered would also reduce the likelihood of any over recovery entering K at the end of the formula period.
- This proposal however would not accommodate situations were no buy backs occurred in a formula period, or where the over recovery exceeded the buy back costs. We would therefore seek clarity as to how often buy back costs occur in a formula period and also their scale.

I hope you find these comments useful. However please contact me should you wish to discuss these in further detail.

Yours sincerely

Stefan Leedham
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