



Eddie Blackburn
Regulatory Frameworks
National Grid
National Grid House
Gallows Hill
Warwick
CV34 6DA

06 December 2007

Dear Eddie

EDF Energy Response to Consultation NTS GCM11: “Retrospective Negative TO Entry Commodity Charge”.

EDF Energy welcomes the opportunity to respond to this consultation. We are opposed to the implementation of this proposal.

EDF Energy supports the principle of cost reflective charging, and further believes that it is appropriate that 50% of TO Revenue is recovered from entry capacity. We also believe that it is appropriate that a mechanism is developed to ensure that any over, or under recovery of revenue is targeted at the correct part of the market. We therefore support the objective of this proposal, however we believe that this proposal is discriminatory, is in contradiction to National Grid Gas’ (NGG’s) Gas Transporter Licence and would be detrimental to competition between Shippers.

EDF Energy is aware that as a result of the change in baselines, and a significant change in bidding behaviour and prices NGG is exposed to a TO over recovery, currently standing at £13.4m to the year to date. This is in contrast to NGG’s licence objectives to use best endeavours not to over recover revenue and will expose them to a penal interest rate under the TPCR. Further this over recover is in contrast to NGG’s objective of recovering 50% of TO revenue from entry and 50% from exit capacity charges. We therefore recognise NGG’s desire to have this mechanism in place for this year to ensure that they meet their revenue targets, and to ensure that any over recovery is redistributed to the market segment from where it originated. However whilst the mechanism for this presented in GCM11 represents an equitable solution for these specific circumstances, we do not believe that it represents an enduring solution and sets a worrying precedent.

In particular we note that this proposal has been raised to ensure that the over recovery that is forecast for the current formula period is returned to the entry capacity participants who have funded this. However this proposal only deals with over recoveries and not under recoveries and so could be viewed as discriminatory. Under the current arrangements any over or under recoveries of allowed revenue at the end of the formula period enters the “k” calculation, which is used to calculate the allowed revenue for the formula period, and so is smeared across both entry and exit. This proposal therefore suggests that whilst it is not acceptable to smear any over recoveries between entry and exit, it is acceptable to smear any under recoveries. This is not cost reflective, could be viewed as discriminating between

entry and exit markets and would have a detrimental impact on competition between Shippers.

For Shippers operating within the exit segment of the market, exit capacity charges are derived on an administered basis to ensure that 50% of TO revenue is recovered from the exit regime. As this sector is not exposed to the volatility, and uncertainty associated with auctions, it would appear that revenues from this sector normally come in on target. This therefore ensures that the charges applied, and the revenues collected from this segment of the market are reflective of the costs that these participants place on the system (assuming that the current charging methodology for determining these charges is cost reflective). However under GCM11, any under recovery from the entry regime would be smeared the following year over both the entry and exit regimes. Therefore the charges applied, and the revenues collected from the entry regime would not reflect the costs that this market placed on the system. As such therefore that in instances of entry revenue under recovery it could be viewed that the exit regime was cross subsidising the entry regime. This would therefore favour Shippers who operated in the entry regime against Shippers who only operated in the exit regime and would therefore be detrimental to competition.

Under NGG's Licence they have a licence condition to provide 150 days notice of indicative charges and 2 months notice of final charges. Whilst this proposal is offering a rebate on over recovered revenue from the TO Commodity charge, in effect this is retrospectively reducing the TO Commodity charge. It could therefore be argued that as this proposal is resetting charges, albeit retrospectively, then NGG would be required to provide the notice for charge changes as dictated in the licence. However NGG are not proposing this level of notice.

As a Shipper EDF Energy has often stated that it believes that predictability of charges is imperative to ensure the continued success of the UK gas market, followed closely by stability of charges. However this proposal does not provide predictability as the charges paid during the year may not be representative of the final charges that were actually paid, and would provide little transparency as to what level charges would be. Whilst we recognise the opportunity that this proposal represents for Shippers who have over funded NGG's revenue, we are particularly concerned on the precedent that this proposal sets. In particular by accepting the principle that any over recovery of revenue can be refunded with little or no notice, the industry would also be accepting that any under recovery of revenue could be collected with little or no notice. We do not believe that this would be beneficial to the industry, and would represent an increase in the Shippers' risk premium that would ultimately be paid for by consumers.

As suggested at the Gas TCMF, EDF Energy believes that a more equitable solution would be to develop the charging methodology so that any contribution to "k" from either the entry or exit regime would be retargeted at the contributing regime in the following year. I.e. any over recovery from entry charges in one year would be used to offset entry charges in the following year. This would ensure that revenue and charges are recovered from the appropriate market segment, and so ensure that charges are reflective of the costs imposed on the system. This would avoid the risk of cross subsidisation across regimes and so would not be detrimental to competition between Shippers. Finally this would ensure that NGG continued to provide the notice requirements as laid down in its licence conditions and would not create the risk of retrospective charges being levied on Shippers.

I hope you find these comments useful, however please contact me should you wish to discuss these further.

Yours sincerely



Stefan Leedham

Stefan Leedham
Gas Market Analyst
Energy Regulation, Energy Branch