

Eddie Blackburn  
Regulatory Frameworks  
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CV34 6DA



12 September 2008

Dear Eddie

**EDF Energy Response to Consultation Document NTS GCM12“Retrospective Negative TO Entry Commodity Charge & Separate Management of K”.**

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

EDF Energy supports the targeting of costs at those who have caused them to be incurred on the Transportation System. We remain to be convinced that the current 50/50 split between entry and exit remains appropriate, however we recognise that this is out of the scope of this consultation. If the 50/50 split is appropriate, then we believe that any arrangement that ensures there are no cross subsidies between sectors is appropriate. However EDF Energy remains concerned with the application of any retrospective charges.

As a general principle EDF Energy believes that any charging methodology should aim to introduce charges that are predictable and stable. This is important for Shippers in order to forecast their costs and develop retail tariffs. The cost of changing a retail tariff is significant, running into millions of pounds, and so Shippers are unable to quickly alter tariffs in response to unexpected changes in Transportation Charges. Unexpected charges could therefore have a detrimental impact on competition by creating a barrier to entry. We have supported the current notification requirement for charges to avoid this issue.

EDF Energy recognises that this proposal would introduce retrospective decreases in charges, which would be beneficial to Shippers. However we remain concerned that this would not be symmetrical with Shippers benefiting from immediate decreases and exposing NGG with cash flow shortfalls when revenue was below target. EDF Energy therefore believes that it is equitable to delay decreases in charges to maintain the predictability and stability that is important for Shippers when facing a charge increase. We are therefore opposed to the retrospective element of this proposal; however we believe that the targeting of K to entry and exit represents an improvement to the current arrangements, and so as a whole we support this proposal.

We would note that under the current arrangements for the management of K there is an opportunity over multi year periods for exit Users to cross subsidise entry Users, or vice versa. This would not appear to be cost reflective and would not be beneficial to competition. Targeting of K to entry and exit would ensure that the general principle of a 50/50 split of core revenue is maintained and so remove the chances of a cross subsidy. As

a preference we believe that this should have been developed as a single proposal without retrospective charges.

We would note that there appears to be an inconsistency in the methodology where NGG note that GCM12 would only be triggered after GCM09 and GCM10, but then note that GCM12 could be triggered even if GCM09 and GCM10 were not utilised. It is EDF Energy's understanding that GCM09 and GCM10 could be triggered by an over recovery, but due to a lack of buy backs or TO Commodity Charges these would not be utilised. We believe that it would be beneficial were further clarity provided on this issue within the "Trigger" guidelines. In addition we would note that NGG refers to the splitting of Licence Defined Term TOKt (K). Again it is our understanding that this split would only occur in the charging methodology and this proposal would not require the redefinition of this Licence Defined Term.

In summary EDF Energy is opposed to any and all retrospective charges, as we believe that this is detrimental to competition and could result in an increased risk premium to consumers. However we are supportive of the separate management of K within the charging methodology, as we believe that this promotes competition and reduces the likelihood of cross subsidies between market sectors. We therefore support this proposal overall, but believe the best solution would be only to introduce changes to allow the separate management of K

I hope you find these comments useful. Please contact my colleague Stefan Leedham ([Stefan.leedham@edfenergy.com](mailto:Stefan.leedham@edfenergy.com), 0203 126 2312) should you wish to discuss this further.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Seb Eyre".

Dr. Sebastian Eyre  
Energy Regulation, Energy Branch