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

16 January 2009

Dear Eddie

EDF Energy Response to Consultation Document NTS GCM13 "April NTS Exit Capacity Price Changes".

EDF Energy welcomes the opportunity to respond to this consultation. We do not support the implementation of this proposal.

EDF Energy recognises the volatility in charges that arise due to the misalignment of the formula period with price changes combined with National Grid Gas' (NGG's) Licence Condition not to over recover revenue in a formula year. We therefore support the intent of this proposal. However we would note that whilst this misalignment does create some volatility in charges the major cause of volatility in exit and entry capacity prices is being driven by changes to the supply and demand balance as a result of updates to the Ten Year Statement.

In particular we would note that Keadby Power Station's charges increased by 2200% between 1 October 2006 and 1 October 2007, and by 91.3% between 1 October 2007 and 1 October 2008. Roosecote Power Station experienced a 96% decrease in charges between 1 October 2006 and 1 October 2007, followed by a 1700% increase from 1 October 2007 to 1 October 2008. This is a recurring theme for NTS charges, which we have included as an appendix to this consultation. EDF Energy therefore believes that whilst re-aligning the exit prices in April may reduce some volatility it will not address the underlying issue that is causing significant swings in exit capacity prices. We therefore do not support this proposal as it does not provide a solution to this significant volatility.

EDF Energy supports cost reflective charges, which is in line with NGG's Standard Licence Condition B 4A.5. Whilst we believe that Option 4 should develop charges that are cost reflective based on the information that is inputted to the model, we would question whether this is more cost reflective than Option 3. We would note that under Option 3 NGG would conduct a full re-calculation of NTS Exit Charges based on the most recent and up to date data. This would appear to be more cost reflective than Option 4 where charges are based on data that is over 2 years old when the charges are calculated. We recognise that this would require a full re-calculation, however given that the charges developed from the Transportation model need to be scaled up to meet target revenue this would not appear to have an impact on NGG's cost recovery.

EDF Energy also believes that it is predictable charges that are of importance to Shippers, rather than stable charges. Implementation of this proposal would introduce the risk to

EDF Energy
5th Floor
Cardinal place
80 Victoria Street
London SW1E 5JL

Tel +44 (0) 203 126 2312
Fax +44 (0) 20 3 126 2364

edfenergy.com

Shippers that exit capacity charges could vary twice a year. Given the relatively small level of volatility that this methodology is seeking to address, we do not believe that this increase is warranted.

Finally whilst EDF Energy believes that NGG should seek to address the underlying cause of instability within the transportation model, we believe that the following issues should also be developed as a potential solution to the instability caused by the misalignment of formula years and price changes:

1. **Alignment of the formula year with the gas year:** EDF Energy would note that on the NTS incremental capacity delivery, charging calculations and contracts are based on the start of the gas year. However volatility in charges is caused by Ofgem setting allowed revenue based on a financial year. Going forward we believe that it would be beneficial were Ofgem to align the formula periods with the gas year, however we recognise that this is an issue for development as part of the next price control.
2. **Changes to the Licence Conditions:** We would note that NGG's Licence Conditions prevent it from taking into account any future changes in allowed revenue when setting prices in October. A potential solution would be to re-write these Licence Conditions so that NGG can take future changes in allowed revenue into account. We recognise that this may be best addressed as part of the next price control, but would seek clarity from NGG as to whether they are open to this solution for effect within this price control period.
3. **Changes to the methodology to allow NTS to set final prices on 1 August for 1 October and 1 April:** EDF Energy believes that there may be a value in developing a charging methodology that allows NGG to set prices on 1 October and 1 April, when they issue their final notice of charges on 1 August. Our support of this proposal would be conditional on the grounds that the charging methodology prevented NGG from re-setting charges for 1 April on 1 February unless under exceptional circumstances. This would provide predictability to Shippers as on 1 August every year they would know what charges would be for the next 14 months – in line with the current arrangements. In addition this would help to reduce volatility and allow NGG to set charges reflective of changes in the allowed revenue.

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

Yours sincerely

Dr. Sebastian Eyre
Energy Regulation, Energy Branch

Appendix 1
Percentage Change in TO Exit Capacity Charges for NTS Exit Points Year on Year

	% Change year on year	
NTS Exit Point	**2006-2007**	**2007-2008**
AM Paper	123.68%	29.41%
Baglan Bay PG	-72.61%	20.63%
Barking PG	-5.65%	10.26%
BASF Teesside	0.00%	0.00%
BP Grangemouth	0.00%	0.00%
BP Saltend HP	-90.00%	0.00%
Bridgewater Paper	8.26%	38.98%
Brigg PG	640.00%	-35.14%
Brimsdown PG	-4.48%	11.72%
Brunner Mond	134.21%	60.67%
Connahs Quay PS	4.59%	40.35%
Corby PS	86.00%	16.13%
Coryton PG	27.96%	10.92%
Cottam PG	640.00%	37.84%
Deeside PS	7.34%	39.32%
Didcot PS	3.51%	8.47%
Goole Glass	1200.00%	153.85%
Great Yarmouth	-93.33%	350.00%
Hays Chemicals	171.05%	46.60%
ICI Runcorn	19.82%	35.34%
Immingham PG	-80.00%	200.00%
Keadby PS	2200.00%	91.30%
KemiraInce CHP	17.12%	36.15%
Kings Lynn PS	75.86%	19.61%
Langage PG	16.33%	185.09%
Little Barford PS	77.42%	10.91%
Longannet	0.00%	0.00%
Medway PS	15.31%	10.62%
Peterborough PS	137.93%	15.94%
Peterhead PG	0.00%	0.00%
Phillips Seal Sands	0.00%	0.00%
Rocksavage PG	19.82%	35.34%
Roosecote PS	-96.00%	1700.00%
Rye House PS	0.00%	9.70%
Saltend	-90.00%	0.00%
Sappi Paper Mill	-42.22%	88.46%
Seabank PG	21.66%	17.80%
Sellafield PS	-96.00%	0.00%
Shotton Paper	14.68%	28.80%
Spalding PG	136.36%	25.00%

Stallingborough PS	-90.00%	1100.00%
Staythorpe	-41.38%	64.71%
Sutton Bridge PS	186.36%	15.87%
Teesside Hydrogen	0.00%	0.00%
Teesside PS	0.00%	500.00%
Terra Billingham	0.00%	500.00%
Terra Severnside	17.90%	26.18%
Thornton Curtis PG	-80.00%	200.00%
Zeneca	0.00%	0.00%

Percentage changes year on year derived from NGG's published NTS Exit Capacity Charges for gas years commencing 2006, 2007 and 2008.