



Debra Hawkin
Regulatory Frameworks
National Grid
National Grid House
Gallows Hill
Warwick
CV34 6DA

14 May 2009

Dear Debra

EDF Energy Response to Charging Methodology Proposal NTS GCM15: “User Commitment & Entry Capacity Cancellation Fees”.

EDF Energy welcomes the opportunity to respond to this consultation, we support implementation of this proposal provided that either modification proposal 0246 or 0246A is implemented.

EDF Energy recognises that the intent of this proposal is to ensure that any cancellation fees recovered are treated as either TO or SO revenue and so decrease the relevant charges. However EDF Energy does not believe that either this charging proposal or associated modification proposals address the underlying issue that is the cause of the problem. In particular we would note that under the current arrangements a Shipper at a single entry point can signal for incremental capacity and face limited repercussions if the project is not delivered. However NGG can benefit from an increase in its allowed revenue of £100m (for example) for a project with limited chances of being delivered and which it is unlikely to invest to support. With no impact on its cost basis this would represent a significant uplift to NGG’s bottom line which Shippers have to fund. EDF Energy believes that this is a failure of the price control and NGG’s Licence that needs to be addressed. However neither the UNC modifications nor this pricing consultation are addressing this issue.

We would also note that were this issue to be addressed through a Licence change, then the requirement for this proposal would also disappear as the cancellation fee could be included as a defined licence term. It is only because this is not being progressed through a Licence change that this proposal is required. It would therefore appear that this proposal is not the optimal solution and it would be easier and tidier were this to be resolved through a Licence change. However we do recognise that this is outside of the scope of this proposal, but wanted to make clear that our support for this proposal should not be seen as support of the modification proposal.

In relation to the proposal itself we would make the particular comments:

- The Licence requires NGG to develop a charging methodology so that transportation prices “reflect the costs incurred by the licensee in its transportation business”. However it is not clear how the cancellation fee is cost reflective. In particular we would note that NGG is charging for something which it may not have undertaken any investment for and so no costs were incurred.

- NGG's Licence also requires NGG to develop a charging methodology that facilitates effective competition between gas Shippers. EDF Energy would note that this proposal should facilitate competition by reducing Users' exposure to a User who defaults on entry capacity secured through the QSEC auction. However we would note that credit is only required to cover 10% of the value of the bookings. Therefore Shippers continue to be exposed to 90% of the default. We therefore believe that this is marginal.
- This proposal facilitates implementation of modification proposals 0246 and 0246A. Without implementation of these proposals then there is no benefit from implementation of this pricing regime.

I hope you find these comments useful, however please contact my colleague Stefan Leedham (Stefan.leedham@edfenergy.com, 0203 126 2312)

Yours sincerely

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

Dr. Sebastian Eyre
Energy Regulation, Energy Branch