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Dear Jemma

EDF Energy Response to Charging Methodology Proposal NTS GCM16: “Supply and Demand Balancing Rules and Supply Source Data”.

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

Under the current Charging Methodology Shippers and consumers experience significant volatility in year on year charges. In the most extreme cases this results in price swings of thousands of percent every year. This issue is experienced at the vast majority of NTS Exit points, with only 9 out of 48 exit points analysed experiencing stable year on year charges (changes of less than 10% every year). This causes significant issues for Shippers who are unable to forecast such volatile charges which can have significant impacts on project valuation and also the value of the User commitment contained within an ARCA or Governed by the ExCR. In addition this causes issues for Directly Connected Consumers who are in general on Transportation cost pass through and for the GDNs, whose Capacity output incentive is based on the indicative NTS Exit charges at the time of making their NTS Exit Capacity booking. This volatility could therefore result in windfall gains, or losses, for the GDNs for no other reason than the year that they made their exit capacity booking. We believe that this is unsustainable and so support NGG’s proposals to reduce this volatility.

Proposal One – Supply and Demand Balancing Options

Under the current arrangements NGG constructs a merit order stack for the individual supply points and ranks these, working up the merit order until supply and demand is met. This is at best arbitrary and the ability of NGG to construct such a detailed merit order is questionable, especially as they have limited experience of operating these supplies in a commercial manner. This can cause significant volatility year on year, as supply sources are arbitrarily turned on or off, impacting on gas flows and charges within the area. NGG’s proposal therefore to group supplies into six groups and work through these in order appears a lot more appropriate.

In particular we would note that this is a lot less arbitrary than working through an individual merit order stack, where the position of individual supply points within the stack is questionable. This should also help to ensure that individual supplies within the stack are not arbitrarily turned on or off depending on fluctuations with the supply and demand position. However we would note that the position of interconnectors and LNG importation

within the stack are open to question. In particular we would note that these supply sources are subject to global price levels and demand, and so their position in the UK's supply stack could change depending on the price of gas in the UK. We therefore believe that it would be beneficial to keep these under review to ensure that these assumptions remain appropriate.

Proposal Two – Source of Supply Data

As noted above, one of the issues with the UK's gas supply position is that increasingly this is being driven by fundamentals outside of the UK, including global LNG prices, continental prices and European supply contracts. These supplies are much harder to forecast, as essentially NGG is being asked to forecast what the weather will be in continental Europe and what global LNG prices will be in comparison to the UK. This is further complicated by the fact that historical flows do not represent a good proxy for future flows, and the knowledge that any forecast NGG produces is likely to be wrong.

Given that these forecasts are wrong and creating volatility in charges, it appears appropriate to develop a view on gas supplies that is no more inaccurate, but produces more stable charges. It therefore appears appropriate that NGG moves to physical capability for entry points identified. This is likely to produce more stable prices, and should also reflect the fact that capacity is required to meet peak demand and supplies, and so arguably is more cost reflective.

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