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

15 May 2009

Dear Eddie

EDF Energy Response to Charging Methodology Proposal NTS GCM17: "QSEC New ASEP NTS Entry Capacity P0 Pricing".

EDF Energy welcomes the opportunity to respond to this consultation, we would like to provide qualified support for implementation of this proposal provided that the additional issues identified by EDF Energy are addressed through future changes.

EDF Energy recognises that the intent of this proposal is to ensure that the P0 prices at two ASEPs that are close together are similar and not constrained to close to zero for new entry points. We believe that this is a flaw in the current arrangements highlighted by NGG and so will allow other Shippers to exploit this loophole if they so wished. We would note that the current arrangements actually override the outcomes of the Transportation model and so develop P0 prices for new entry points that are not cost reflective. EDF Energy supports cost reflective charges and so welcome the implementation of this proposal

However we would note that in the consultation document (paragraph 4.3) NGG suggests that the NPV test is designed to ensure that new projects meet 50% of the value, and allowing Shippers to secure their capacity at a 0.0001p/kWh/day P0 Price will result in other Shippers having to cover the other 50% therefore creating a cross subsidy. However in the QSEC auctions Shippers can only secure capacity out to 17 years in the future, which in general is a lot shorter than the average life of the gas assets. With the development of substitution and transfer and trades, it appears unlikely that Shippers will not book long term entry capacity to secure their assets at future QSECs. However NGG appears to be ignoring these future revenues when meeting the project value. We would also note that the project value is developed by the Transportation model, and is not linked to the investment required. There is therefore equally a chance that when meeting the NPV test new ASEPs are creating a cross subsidy to existing Users if no investment is required. EDF Energy therefore believes that the NPV test needs reviewing in light of NGG's comments. In particular it would appear that there may be a requirement to link the NPV test to the actual investment.

We would also note that currently the Transportation model is constrained so that it cannot develop negative charges. This creates issues were the site benefits from a negative LRMC; however the benefits to the system are not reflective of charges. In addition for storage points this creates the issue in that charges should net to zero, however the Transportation model prevents this. This again would appear to create a cross subsidy and is not reflected in either the NPV test or the development of charges. We therefore believe that this issue should also be addressed.

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 this proposal appears only to address issues in developing the P0 price for sites with a positive LRMC and not negative LRMCs. Whilst we recognise that this may be more cost reflective than the current arrangements we believe that this issue should be addressed.
- 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 ensuring charges are cost reflective at new entry points with a positive LRMC only. It would appear new entry points with a negative LRMC and Shippers at storage sites are paying more than they should and so creating a cross subsidy. This issue should therefore also be addressed to meet NGG’s Licence requirements.

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

Yours sincerely

Dr. Sebastian Eyre
Energy Regulation, Energy Branch