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21 August 2015

## **NTS GCD11 - Updating the Cost Inputs to the NTS Optional Commodity Charge Function**

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

EDF Energy welcomes this consultation from National Grid (NG) to bring the NTS Optional Commodity Charge (Shorthaul) up to date and ensure it is still fit for purpose. NTS commodity costs have been rising each year and therefore more and more Shippers are using the cheaper Shorthaul charge which in turn increases commodity charges that downstream Shippers pay. The Shorthaul charge has not been changed since it was introduced in 1998 and NG has a licence objective to keep transportation charges as cost reflective as possible. On this basis we believe the updates to the formula proposed by NG in Option 1 are best at meeting their licence obligation. A more cost reflective Shorthaul charge should more accurately allocate costs to those who cause them in the interest of consumers.

In terms of the implementation date, we agree it should follow the same timeline for other NTS charges and be given the minimum lead time of 150 days for indicative price changes. We therefore agree that the earliest implementation date should be 1 April 2016 if implemented before October 2015.

Our detailed responses are set out in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact John Costa on 020 3126 2324, or myself.

I confirm that this letter and its attachment may be published on National Grid's website.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mark Cox'.

**Mark Cox**  
**Head of Transmission and Trading Arrangements**

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## Attachment

### NTS GCD11 - Updating the Cost Inputs to the NTS Optional Commodity Charge Function

#### EDF Energy's response to your questions

**Q1. Do respondents prefer Option One or Option Two as the most reasonable approach, and most consistent with facilitating the relevant objectives, to update the underlying costs of the formula in an effort to bring the NTS Optional Commodity charge formula more up to date?**

EDF Energy agrees that the formula behind the NTS Optional Commodity Charge (Shorthaul) is out of date as the inputs that make up the formula have not changed since 1998. National Grid has a licence objective to ensure charges are cost reflective and it makes sense to update the formula as soon as possible to make sure it is reflective of available reference values for unit costs and / or to use available market indices to update current costing values where possible. We support NG's use of pipe sizes and unit costs agreed under the RIIO-GT1 Price Control in deriving the two options put forward in this consultation. This would ensure that the costs that underpinned the calculation of Optional Commodity charges were based on costs related to NG's Price Control settlement and give comfort that the values being used having been agreed by Ofgem.

The main difference between Option 1 and 2 is that Option 1 uses three pipe sizes (610mm, 915mm and 1220mm) which are likely to be used for NTS connections. Option 2 uses the same pipe sizes in Option 1 but includes another 7 smaller pipe sizes that are likely to be used in lower pressure tiers in the Distribution networks. However, we do not believe these pipe sizes will actually be used in practice for NTS connections. For this reasons, we believe Option 1 better facilitates NG's licence objectives to ensure that charging methodologies:

- 1) Reflect the costs incurred by the licensee in its transportation business.
- 2) So far as is consistent with (1) properly take account of developments in the transportation business.
- 3) So far as is consistent with (1) and (2) facilitate effective competition between gas shippers and between gas suppliers.

A more cost reflective Shorthaul charge should more accurately allocate costs to those who cause them and lead to more economic pricing decisions and competition by Shippers.

**Q2. Do you agree with the proposal to delay reviewing the methodology / access and flexibility of the NTS Optional Commodity charge until EU TAR / GTCR is more certain?**

The Shorthaul charge was introduced to incentivise the use of the NTS to help avoid inefficient by-pass of the NTS by large sites located near to entry terminals. It makes sense

to review this principle to ensure the charge is still fit for purpose and is not creating unintended consequences. However, we agree that there are a number of other charging regime changes currently being considered, such as Ofgem's charging review (GTCR) and the EU Tariffs code that should be taken into account in any review of the principles behind the Shorthaul Charge. For these reasons, we agree the review should only take place once certainty is gained from EU Tariff's code and Ofgem's GTCR.

**Q3. Do respondents agree with our proposed approach on timescales for notifying a change to NTS Optional Commodity charges, following the same notice periods as for other NTS charges? If not what do you believe these should be?**

Yes, we agree that this change if implemented should follow the same notice periods as other NTS charges – i.e. 150 days (Indicative notice). We do not believe this change is sufficiently material to warrant a different notice period to the agreed charging processes. Also, given the amount of time the rate has been incorrect, we believe this is a fair lead time. We would not agree for example if the proposal was to introduce this change in the minimum two month lead time NG can use for actual final charges.

**Q4. Do respondents believe 1 April 2016 is an appropriate implementation date? If not what do you believe the implementation date should be and why?**

We would support a longer implementation lead time but the change is relatively immaterial. As such and for the reasons stated above, we believe 1 April 2016 is an appropriate implementation date as it provides the 150 days indicative notice lead time, if implemented by October 2015.

**Q5. Are there any elements that you feel we should take into consideration, or that you believe we have missed and should take into account, in the two options being considered for reviewing the NTS Optional Commodity Charge?**

No.

**EDF Energy  
August 2015**