

Andrew Fox
National Grid
National Grid House
Gallows Hill
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Dear Andrew

Methodology to Determine Incremental Constraint Management Costs and Incremental Compressor Costs Related to Removal of an NTS Pipeline.

EDF Energy is one of the UK's largest energy companies. We provide 50% of the UK's low carbon generation. Our interests include nuclear, coal and gas-fired electricity generation, renewables, combined heat and power plants, and energy supply to end users. We have over 5 million electricity and gas customer accounts in the UK, including both residential and business users.

We welcome the opportunity to respond to this consultation.

We believe that it would be good industry practice for this methodology and any future changes to the methodology to be subject to regulatory approval providing Ofgem with a power of veto. This will ensure that any conflict of interests across the National Grid suite of companies is dealt with in an impartial manner. Currently the methodology only requires agreement from National Grid and National Grid Carbon for any changes¹ which we feel does not provide us with confidence that this methodology is subject to appropriate governance arrangements.

In general we believe that the proposed methodology effectively ensures that the additional costs associated with the disposal of the NTS Pipeline are captured; although, we have some high level comments regarding some of the proposals. In particular we believe that:

- It is not clear why National Grid has relied on modelled constraints rather than using historical constraint information and costs to model incremental costs. We note that since 2006 the constraints occurring in that part of the network has been very low, suggesting that it is an unconstrained area. We understand the need for a forward

¹ Paragraph 9

looking process, but there is a risk that relying on a model to identify constraints would create constraints when none had previously existed.

- If National Grid is to rely on modelling for incremental constraint costs, then this should be subject to independent auditing, (we note that this has been provided by Poyry in the past) and will provide comfort to the industry that those costs associated with the disposal of the feeder are targeted at National Grid Carbon.
- We understand that National Grid can forecast compressor usage when developing the shrinkage incentive; however, it has been unable to forecast compressor usage in order to identify the incremental costs. As a minimum providing forecasts would provide a useful means of testing the results of the modelling.
- It would be beneficial were National Grid to provide additional analysis and evidence to support some of the assumptions that they have made. Without this analysis and evidence it is hard to judge whether these assumptions are reasonable or not.
- In the methodology Gas Shippers, and so consumers, are exposed to the risk that National Grid constrains more capacity than required. It would appear more appropriate for this risk to be shared by both National Grid Carbon and National Grid Gas.

We believe that rather than relying on modelling, which may prove inaccurate at identifying constraints, National Grid should also use historic constraint information and costs to inform their quantification of any additional costs as a result of the disposal of the feeder. We believe that this would better reflect operational experience – which suggests that this is not a constrained area and ensure that costs are appropriately targeted. If a modelled approach is to be used then this should be subject to independent audit to provide certainty to the industry that the process has worked as expected. In the past Poyry has undertaken this role to validate the transfer and trade process.

In relation to the specific methodology we note that the invoicing schedule outlined in paragraph 28 is not clear. In particular National Grid's proposal to invoice any constraint costs occurring between 1 April 1 and 31 March Y+1 by 30 June Y+1 relates to the Gas Year, but all references in this section are to the financial year. We believe that this requires further clarification.

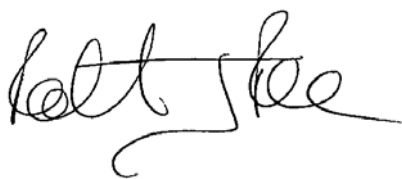
Within the methodology, National Grid recognises that when taken a constraint management action it may over purchase to ensure that there is a level of tolerance in its actions (paragraph 33). When no constraints would have occurred, then this risk is borne by National Grid Carbon; however, if there are incremental costs caused by the disposal, then this risk is transferred entirely onto Gas Shippers, and so consumers. We do not believe that this is appropriate, and should incremental constraints be caused by the disposal, then any risks should be shared.

Finally we note that throughout the document National Grid has made a number of assumptions; although, these appear sensible, without any evidence or analysis against these assumptions it is hard to judge whether they are appropriate or not. For example

the assumption in paragraph 39 that the later a constraint action is taken, the more expensive it will be. It would be beneficial for National Grid to support assumptions such as this with evidence or analysis.

I hope you find these comments useful, however please contact my colleague Stefan Leedham (Stefan.leedham@edfenergy.com, 020 3126 2312) if you wish to discuss this response further.

Yours sincerely

A handwritten signature in black ink, appearing to read "Rob Rome".

Rob Rome
Head of Transmission and Trading Arrangements
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