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Dear Jan

**EDF Energy Response to NTS GCD01: “Introduction of NTS Exit (Flat) Capacity Charges under the enduring offtake arrangements.”**

EDF Energy welcomes the opportunity to respond to this consultation and provide comments on National Grid Gas’ (NGG’s) proposals. For the avoidance of doubt EDF Energy remains opposed to the reforms of NTS Exit capacity as proposed in UNC Modification Proposal 116V, and none of the comments made in this response should be construed as supporting the introduction of NTS Exit Flat or Flexibility Capacity.

EDF Energy welcomes NGG’s charging proposals and the resources NGG has devoted to developing a new charging model through the Gas Transportation Charging Methodology Forum (TCMF). As a general principle we welcome the predictability that the Transport Model would bring to the industry, and would note that from our perspective predictability of future charges is of greater value than stability of charges. We believe that NGG’s general approach to flat capacity charges and the setting of reserve prices for the auctions seem reasonable, providing price transparency regardless of which charging model is used. In relation to the specific questions we would make the following comments:

**Q1: LRMCs are calculated from either a Transportation Model of the NTS or are calculated from Transcost.**

The benefit to Users, and Directly Connected Consumers (DCCs) of the Transportation Model is that they would have transparency of the charges that they would be exposed to when indicating their long term flat capacity requirements, under the User commitment model proposed in UNC 116V, 116BV and 116CV. From an investment decision perspective this predictability provides huge benefits, allowing for a full and complete investment appraisal to be undertaken on our view of future developments on the network, and thereby the likely charges associated with these developments. We have long used and taken advantage of this facility within the electricity DCLF ICRP model, and would welcome the introduction of a similar model in gas. We believe that this predictability will therefore facilitate Licence Condition 3: the securing of effective competition between gas shippers and gas suppliers, and Licence Condition 2: reflect developments within the Transportation Business, as Users will be required to indicate their long term capacity requirements, which will be greatly enhanced if they have visibility of the charges they will be exposed to. However one of the failings of the Transportation model is that it currently does not incorporate the concept of

spare capacity; however NGG is consulting on how best to overcome this issue. We therefore believe that the Transportation Model should be used to calculate the LLMCs.

**Q2: LLMCs are calculated from a Transportation Model of the NTS, consequentially excluding spare capacity and including a back haul benefit equal to the avoided cost of reinforcement.**

EDF Energy is aware from participation in the Gas TCMF that NGG are about to consult on whether spare capacity is included in the Transportation Model or not. Whilst including spare capacity would ensure that Users only pay for actual reinforcement, we would note that the inclusion of spare capacity would be subjective and would produce unstable and less predictable charges. Excluding it on the other hand would avoid the issues associated with cross subsidisation and produce more stable and predictable charges. It would appear that cross subsidisation falls foul of the EU Gas Regulations, whilst unstable and unpredictable charges would not be beneficial for competition, or reflect the developments in the transportation business. It is therefore logical that spare capacity is excluded and the benefits of the Transportation model detailed in the previous question are recognised.

**Q3: NTS Exit (Flat) Capacity Prices are determined separately for each gas year from analysis of a single year Supply and Demand forecast using the relevant gas year's base case data and network model for the capacity released.**

As discussed previously the transparency and predictability that this would give Users and DCCs would secure effective competition between gas shippers and gas suppliers, in line with GT Licence Objective 3, and will reflect developments in the Transportation business. We would further note that this will ensure that the reserve prices in the annual auction better reflect the costs that the Transporter is likely to incur in its Transportation Business than under the Transcost model where the reserve prices will be based on the next gas years charges. This therefore facilitates Objective 1 of the GT licence.

**Q4: Entry and Exit LLMCs be calculated from the cost from a "reference node" to each relevant offtake point and the cost from each entry point to the "reference node" and that the LLMC is adjusted to give a 50:50 split between the average positive value of these adjusted entry and exit costs.**

As stated in the previous answer the issue associated with this approach is that no account is taken of spare capacity within the system, with any change in flows resulting in a reinforcement requirement. However the benefits of stability, transparency, predictability and avoidance of cross subsidisation overcome this minor failing. We would further note that by aligning the costs with the revenue recovery requirements so that an equal value is recovered from each element should aid consistency, whilst ensuring the correct proportions of revenue are recovered.

**Q5: LLMCs are calculated from Transcost, consequentially including spare capacity and excluding backhaul benefit.**

We are aware that discussions are taking place as to whether spare capacity should be included in the Transportation model, and so inclusion of spare capacity is not a benefit only available to the Transcost model. It should however be noted that the Transcost model is better placed to accommodate spare capacity than the Transportation model. We note that in principle the inclusion of spare capacity and the exclusion of any backhaul benefit is a benefit of the Transcost model; however the price of achieving this principle is lack of transparency, stability and predictability, all of which will be detrimental to facilitating competition between gas suppliers and gas shippers. It is also clear that the inclusion of spare capacity may give some perverse locational signals and provide an incentive to maintain the current system configuration, rather than developing one which encourages the delivery of gas where demand is.

**Q6: NTS Exit (Flat) Capacity Prices and auction reserve prices for all relevant gas years are determined from a single weighted average analysis of the ten year Supply and Demand forecast using the current Gas Year's base model.**

The issues surrounding the adoption of this proposal are that the model and charges that it produces will not reflect developments in the Transportation model. In particular reserve prices will be set on the next years' Transportation charges and so will not reflect developments within the Transportation business, whilst Users, and DCCs, will have no transparency as to the charges that they will be liable for paying under the User commitment model that is being proposed. We do not believe that this model will have a positive impact on facilitating competition between gas shippers and gas suppliers, and we do not believe that thus will ensure that the reserve prices reflect the costs incurred of operating the system.

**Q7: Entry and exit LRMcs be calculated from route costs associated with an incremental flow of 2.834Mscm for every combination of entry and exit point and that the route LRMcs are disaggregated into entry and exit LRMcs using an excel based solver constrained to give a 50:50 split between average positive values of these adjusted entry and exit costs.**

Whilst this model is able to accommodate spare capacity better than the Transportation model, we would note that the cost of this is less predictable prices and a less User friendly model. We do not believe that this will facilitate competition or give the transparency Users require for the User Commitment Model to operate effectively, and so will not reflect developments within the Transportation business.

**Q8: Prices are set at a nodal rather than an exit zone level for all NTS Exit Points**

Under the current regime when a Shipper/Supplier is developing his prices for a consumer, be it commercial or domestic, a central element is identifying the applicable exit zone and therefore the Transportation charges that will apply, including NTS exit capacity. However it is not clear how this will work under the proposed regime with the move from zonal to nodal pricing. It would appear that either very complex systems will be needed to identify which node serves which customers or the Gas Distribution Networks (GDNs) will need to develop an entirely new methodology for recovering these costs. Either process will require the development of new systems and so represent a cost to Shippers, negatively impacting on competition. This would therefore appear detrimental to facilitation of GT Licence objective 3.

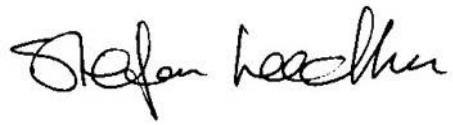
**Q10: No year-on-year capping of NTS exit Capacity prices is included in the methodology.**

As previously stated EDF Energy values predictability of charges over stability of charges, and so this is an acceptable approach when combined with the Transportation model, as this will ensure that charges reflect the cost of operating the system. However if predictability of charges is not available then stability of charges becomes important, suggesting that the cap should be in place were the Transcost model continue to be utilised. As noted in the consultation this has resulted in charges becoming detached from the LRMc, however this could be overcome by realigning the charges at the start of every price control. This would ensure that charges reflected the costs of operating the system, whilst ensuring that prices remained stable within the price control period.

**Q11: Interruptible NTS Exit (Flat) Capacity Prices are discounted by 100%.**

Given that interruptible capacity will be available through either a Use It or Lose It (UIOLI) mechanism or a zero cost dependant on configuration of the system, it appears reasonable that Interruptible Flat Exit Capacity should be released at a zero cost reserve price. This will facilitate licence objectives 1, 3 and 4.

Yours sincerely



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