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Dear Jan

**EDF Energy Response to NTS GCD02: “Introduction of NTS Exit (Flexibility) 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 would also like to express our concern at the route that these proposed charging arrangements appear to be progressing. We are aware from discussions at the Gas Transmission Charging Methodology Forum (TCMF) that the introduction of these charges could effectively lead to the commoditisation of a capacity charge. This seems counter productive to the objective of ensuring that charges reflect the costs of operating the transportation business. In relation to the specific questions we would make the following comments:

**Q1: A zero reserve price to be introduced for all NTS Exit zones for the annual auction of NTS Exit (Flexibility) capacity the first of which is proposed under modification 0116 to be held in July 2007.**

EDF Energy recognises the principle that flexibility capacity should attract a zero reserve price as it is a by product of flat capacity and provided at zero cost to NGG. However we do not believe this addresses the fundamental flaw of releasing a seasonal product on an annual basis, thereby creating an artificial constraint and inflating prices. We do not believe that these will reflect the costs of the Transportation business and will be detrimental to the facilitation of competition between gas shippers and gas suppliers, GT Licence conditions 1 and 3.

**Q2: The reserve price for daily NTS Exit (Flexibility) Capacity to be the same as the reserve price for annual NTS Exit (Flexibility) Capacity.**

As stated previously EDF Energy welcomes the principle that a by-product of flat capacity should be released at a zero reserve price, and so it appears appropriate that the reserve price in the daily auctions is set at the same level. We would further note that the majority of day ahead flexibility capacity released at the day ahead stage is expected to be released

through the OPN process at zero cost. It is therefore consistent that both releases should attract the same base price.

**Q3: The NTS SO Exit (Flexibility) Commodity Rate to be the same rate for all NTS Exit Zones and determined each Gas Year according to the methodology put forward in this paper.**

It appears inconsistent that under the current regime GDNs are able to book flat and flexible capacity from the NTS, but this does not attract a separate SO Commodity charge, yet as this service may be extended to all NTS Exit Points a charge should be created. We would note that if the creation of this charge does facilitate the relevant objectives, then having no charge will be detrimental to the relevant objectives, as charges will not reflect the cost of operating the Transportation system. Alternatively removing the constraint of requiring Users to book flexibility capacity on an Annual or Day Ahead basis, but charging Users for their utilisation of this service may overcome some of the issues associated with the release of this product.

**Q4: Any under/over recovery amounts arising from the NTS SO Commodity Charges (Flat and Flexibility) to be combined and the respective commodity rates scaled by a common factor to manage the under/over recovery, hence maintaining initial price ratios.**

**Q5: The NTS SO Exit (Flat) Commodity Rate at NTS Exit Points to be set at a level which when combined with the proposed NTS SO Exit (Flexibility) Commodity Rate would recover 50% of the SO allowable revenue.**

It is not clear how historically this split between Entry and Exit SO Commodity charges was reached. If the cost of operating the system is split 50:50 between entry and exit, then it appears reasonable that the same split be applied to revenue recovery targets. However we would request further information and clarity as to how this split was reached and whether it remains reflective of the costs of operating the system.

Yours sincerely

A handwritten signature in black ink that reads "Stefan Leedham".

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