Jan Gascoigne
Regulatory Frameworks
National Grid
National Grid House
Gallows Hill
Warwick
CV34 6DA

24 November 2006

Dear Jan

EDF Energy Response to NTS GCD03: "Recovery of TO Allowable Revenue from Exit Users from 1st October 2010."

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. It would appear that the requirement to introduce this charge on exit capacity is a by product of the move towards auctions, and the revenue uncertainty associated with this release mechanism. It could therefore be questioned whether the reforms proposed in modification proposal 116V are detrimental to facilitation of the GT Licence Objective to ensure that charges reflect the cost of operating the Transportation business. In relation to the specific questions we would make the following comments:

Q1: The derivation of NTS TO Exit Commodity Rates, applicable to flat capacity utilisation or alternatively to both flat and flexibility utilisation, in light of capacity sale and auction derived revenues, as an appropriate over recovery mechanism to ensure National Grid NTS can comply with its revenue restriction licence obligations.
Given that both flat and flexibility capacity are provided by the same asset base, for which NGG is attempting to recover revenues, it would appear cost reflective to apply the NTS TO Exit Commodity Charge to both flat and flexibility utilisation. We would however note that this will still result in a capacity charge being targeted at throughput volumes and so utilisation rather than capacity provision. It is therefore apparent that the introduction of this charge is not cost reflective, and will penalise Users with high capacity utilisation.

Q2: If exit buy back costs were recovered through the proposed exit capacity neutrality mechanism, the introduction of an Exit buy-back mechanism in light of capacity sale and auction-derived revenues, as an appropriate over recovery mechanism to ensure National Grid NTS can comply with its revenue restriction licence obligations.
Notwithstanding our concerns regarding the introduction of a commodity charge to recover capacity charges, it appears appropriate that any over recovery of revenues should be used to cover buy back costs in the first instance. We note that this will ensure that a capacity charge continues to be focused on capacity, and overcomes some of the perverse incentives that commoditisation of a capacity charge will introduce. Further this will facilitate the GT Licence objective to ensure that charges reflect the cost of operating the system, although we would question how material this issue is, given NGG's historical tendency to under recover revenues from the Entry Auction process.

Q3: The derivation of a negative NTS Exit Commodity Price, applicable to flat capacity utilisation or alternatively to both flat and flexibility utilisation, in light of capacity sale and auction-derived revenues and if over recovery was in excess of buy-back costs, as an appropriate over recovery mechanism to ensure National Grid NTS can comply with its licence obligations.
As previously stated EDF Energy is opposed to the concept of commoditising a capacity charge, and so we do not agree with the use of this mechanism as a primary tool for addressing the over recovery of revenues. We would further question whether the use of a negative commodity charge will provide the correct market signals as a secondary mechanism. The introduction of a negative capacity charge may encourage sites to increase throughput, and will ensure that capacity charges are smeared back dependant on capacity utilisation and not bookings. We therefore believe that an over recovery mechanism should be developed so that the over recovery is smeared back to Users based on their capacity holdings. A similar mechanism already exits for funding the cost of entry capacity buy backs and so we see no reason why a similar mechanism cannot be developed to smear costs back. This would be more cost reflective and facilitate competition within the gas market.

Q4: The NTS TO Exit Commodity charge when negative is collared to prevent the aggregate of NTS TO and SO Exit Commodity Charges from being negative.
As previously stated EDF Energy does not agree with the commoditisation of capacity charges, and believe that a more cost reflective mechanism could be developed for smearing back over recovery of capacity revenues based on capacity holdings and not throughput.

Q5: The NTS TO Exit Commodity Rate would be set at a level which when combined with revenue recovered from the NTS TO Exit (Flat) Capacity and NTS TO Exit (Flexibility) Capacity Charges would recover 50% of the TO allowable revenue.
As previously stated EDF Energy does not agree with the commoditisation of capacity charges, and believe that a more cost reflective mechanism could be developed for smearing back over recovery of capacity revenues based on capacity holdings and not throughput.

Yours sincerely

Stefan Leedham
Gas Market Analyst
Energy Market Strategy, Energy Branch