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Dear Eddie

EDF Energy Response to Pricing Discussion Document NTS GCD04: "Revisions to NTS Entry Capacity reserve Price Discounts."

EDF Energy welcomes the opportunity to respond to this consultation and offer our comments on the options provided. We believe that Option 1: "Removal of discounts for Obligated NTS Entry Capacity reserve prices for firm NTS Entry Capacity" represents the best option of the three provided by NGG, however we believe that further options should also be considered in relation to the pricing of within day and day ahead firm products.

In particular it would appear that the aim of the discussion document is to encourage Shippers to book longer term entry capacity and also to ensure that there is no cross subsidisation between ASEPs and Users who decide to implement different capacity booking strategies. As a result of encouraging Users to book capacity longer term it would also appear that the amount of under recovery from the auctions will be reduced and so the level of the TO Commodity charge will also be reduced. As recognised by NGG the impact of the recent changes to the Licence Conditions, when implemented, with regards to the transfer, trade and substitution of entry capacity, combined with the recent unexpected change to the entry capacity baselines should also encourage Users to book their entry capacity requirements long term. It would therefore appear that these proposals are designed to introduce a further incentive to book capacity long term, or remove the disincentive that is currently present. In addition it would also appear that changing these arrangements may encourage the development of a secondary market for trading capacity.

EDF Energy believes that the core benefits that these proposals should deliver are to encourage Users to book long term capacity, and encourage the development of a secondary market for trading capacity. We therefore believe that in addition to the Licence Objectives it is these two core benefits that the proposals should be judged against. As such therefore Option 3, maintaining the current arrangements, does not deliver these core benefits as it has been demonstrated that they do not encourage Users to book long term entry capacity and the secondary market for trading capacity has not developed significantly. Further, as recognised by NGG, Option 3 could maintain the cross subsidy between Users that are currently experienced, which is inconsistent with EC Regulation 1775/2005.

UNC 2.5.10 defines interruptible capacity as: "an amount of NTS Entry Capacity equal to the daily average unutilised firm capacity." As such therefore there has been no cost to NGG associated with the release of this capacity, as this should have been recovered from the firm capacity holders, instead it releases unused capacity. As no costs are associated with the release of the unused capacity, it would therefore appear that no charges should be associated with it. Option 2 however would place a charge associated with this capacity in certain circumstances and so would be inconsistent with the relevant licence condition to ensure that charges reflect the costs incurred by the licensee in its transportation business.

Option 1 however maintains the discount, and so is consistent with the licence conditions. Further by removing the discount for day ahead and within day firm capacity this option will encourage Users to book long term capacity, and by creating a value for this capacity at the day ahead and within day stage encourage the development of a secondary market. We would however note that we believe further actions will be required to further encourage the development of a secondary market, which we have already shared with NGG.

However whilst we believe that Option 1 represents the best of the options presented by NGG, we believe that this could either be developed further, or a fourth option should also be considered. We would note that in the majority of markets and contracts, a discount is applied for entering into a contract with a longer lead time than entering into one with a shorter lead time, as this provides the seller with certainty regarding income and demand, whilst providing an incentive on buyers to enter into such a long term contract. Whilst we recognise that NGG's licence conditions and price controls prevent NGG from offering a discount for long term capacity we believe that a methodology could be implemented that replicates this common business practice. It would appear that rather than offering a discount to long term capacity, NGG could apply a premium to shorter term capacity. This would encourage Users to book longer term capacity and by placing a value on day ahead and within day capacity this would encourage the development of a secondary market.

We recognise that this regime may expose NGG to over recover revenues during a price control period, however we believe that this could be overcome by either scaling down all reserve prices to reflect this, or the current smear back mechanism could be employed using any over recovery to fund buy back costs, or as a negative TO Commodity charge. We note that this mechanism for revenue over recovery is proposed to be employed on the exit side and so see no reason why a similar mechanism can not be employed on the entry side of the market.

An alternative option to encourage price discovery for day ahead and within day capacity would be to remove the DSEC auctions and instead rely on the secondary market to release this capacity. This would provide the secondary market with the required liquidity and allow NGG to compete with other Users for the release of sale of spare capacity in an open and transparent auction process. This mechanism would be particularly useful if NGG remained anonymous to the rest of the market when releasing this capacity. However we recognise that this Option would require significant development by the industry before it could be progressed.

I hope you find these comments useful, however if you wish to discuss these in more detail please contact me.

Yours sincerely

Stefan Leedham

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