

Ms Debra Hawkins  
National Grid  
NG House  
Gallows Hill  
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CV34 6DA

22 February 2008

Dear Debra

**Re: Discussion Document NTS GCD05: "Options for a SO Commodity Charge for NTS Storage Facilities"**

EDF Trading ("EDFT") is happy to submit this response to the above document.

EDFT does not support the introduction of a commodity charge on storage flows - entry or exit. We have previously indicated our opposition to the concept in our responses to Modification Proposal 0120 and Pricing Consultation GCM03.

Notwithstanding our opposition to the imposition of a charge, EDFT has elected to provide a detailed response to this consultation. We wish to make it clear that these comments should not be interpreted as a signal of support for the implementation of any such commodity charge.

EDFT does not believe that a SO Storage Commodity Charge should be introduced for the following reasons:

- the costs it proposes as being applicable to storage sites are not appropriate, except perhaps Internal Costs;
- internal costs are fixed and not related to throughput and therefore should not be recovered via a commodity charge;
- it is not clear what level of Internal Costs might be recovered via a Storage Charge, however, we suspect that it will be insignificant and not worthy of attracting a new charging function;
- storage sites do, without doubt, reduce the capital and operating costs of the TO and SO. This is not considered in the Document and therefore cannot be cost reflective;
- storage is used by Users who ultimately offtake gas for delivery to customers. For this reason the costs will be recovered from Users and we see no need to add another level of charging complexity; and
- the overall reduction in the current SO Commodity Charge is insignificant and will not materially benefit non-storage Users.

## Comments

In terms of those components identified by National Grid in Section 2 of the Document we offer the following comments:

**Shrinkage Gas** - We welcome the analysis produced by National Grid which confirms that there is no relationship between storage and the use of compression. The second part of the analysis also confirms that there is no relationship between storage utilization and Unaccounted for Gas. National Grid is correct to conclude that any charge should exclude a consideration for Shrinkage Gas.

**Internal costs** – Such costs, the level of which is unclear, relate to fixed elements which are not related to throughput. They cannot be assigned to commercial or physical flows – and if they were it would have a disproportionate impact on fast cycle facilities. EDFT believes that if these costs are recovered in this way they should be targeted at other system points. – however we suspect that the application of the charge will do nothing more than add costs to the supply chain and see this as a unnecessary cost borne ultimately by customers.

**Operating Margins and Constrained LNG** – National Grid has accurately summarized the manner in which storage operates and concludes that these cost components should not be included in any future charge. EDFT concurs with this view.

**Deemed Interruption** – There is no case to include Deemed Interruption as a valid cost component as storage users do not benefit from an interruptible service. During periods of high demand, storage sites will withdraw gas and create rather than diminish capacity levels on the NTS.

**Outcome of Incentive Payments** – Of the Schemes which currently exist it is clear that those which are targeted at NTS Shrinkage and Operating Margins should not be included for reasons stated above. The Schemes which focus on Residual Balancing should also be excluded from any future charge. Residual Balancing is carried out by National Grid to counter aggregate imbalances generated by Users. Storage should be classed as a balancing tool – and on the basis that storage is used in a way that assists National Grid's management of the system it should be excluded from any potential future charge.

We believe that storage Users should be exempt from picking up any costs associated with the Information Incentive. This incentive is designed to provide users and customers with useful system information to assist them in their understanding of the day to day operation of the market. Storage is a component of the market and contributes data to facilitate its proper functioning.

In terms of the additional questions posed in the Discussion Document, EDFT does not believe that it is appropriate to consider them in detail as we are firmly of the view that from both an economic and regulatory perspective the application of a SO Storage Commodity Charge is invalid.

## Conclusions

Given the points we have raise we find it difficult to justify the inclusion of any of the cost elements identified in a future commodity charge. As far as we are concerned the only valid cost component relates to Internal Costs which are fixed in nature and certainly do not lend themselves to a throughput based charge. If such a charge was introduced then EDFT believes that it would discriminate against multi-cycle facility users and for this reason would conflict with the Licence Charging Objectives. In addition we firmly believe that any attempt to introduce a charge which will recoup a *de minimis* level of revenue would not be in the interests of the industry and customers.

In summary we believe that the proposal to introduce a Storage Commodity Charge is flawed in a number of areas and should not be considered any further.

We trust you find our comments useful and if you have any questions then do not hesitate to get in touch.

Yours sincerely



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