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Dear Eddie

NGG NTS Discussion Document NTS GCD08: "NTS Entry Charging Review".

EDF Energy welcomes the opportunity to respond to this consultation. We have supported the work that the Entry Charging Review Group (ECRG) has undertaken to identify options for reducing the size and impact of the TO Commodity charge, however we have concerns with some of the options that have been presented to resolve this issue. We have provided comments on these below and more detailed answers to the specific questions raised have been appended to this letter.

The issue of the TO Commodity charge has been increasing over years as a result of the under recovery of revenue from the entry capacity auctions. This causes issues for Shippers who utilise entry capacity as the TO Commodity charge is relatively unstable and so unpredictable. This creates issues when conducting project appraisals as Shippers are unable to forecast the NTS charges to which they would be exposed. EDF Energy has therefore supported the work of the ECGR to identify solutions that will reduce the scale of the TO Commodity charge and so bring greater predictability to the entry capacity charges.

However, EDF Energy has concerns with some of the solutions that the ECRG has developed. In particular, we would note that there have been numerous drivers for the under recovery of TO entry revenues. These have been driven by the historic use of UCAs to calculate entry reserve prices, and the pricing differential that has made short term capacity appear more attractive. Today entry capacity reserve prices are based on the Long Run Marginal Cost (LRMC) of making the capacity available, which has resulted in higher reserve prices than under the UCAs. However, the impact of this will take time to flow through as more capacity is progressively procured at the LRMC reserve price rather than the UCA reserve price. In addition there has been fundamental change to the entry capacity regime in the last 3 years, including the introduction of entry capacity substitution, transfer and trades and the re-setting of baselines. These reforms have all reduced the attractiveness of purchasing shorter term capacity as the risks associated with this capacity have significantly increased. EDF Energy therefore believes that it is appropriate to allow these significant reforms to bed in prior to undertaking additional reform. This should ensure that the charging regime does not move from one extreme to another.

EDF Energy is particularly concerned with the proposed amendments to the 'Use It or Lose It' (UIoLI) interruptible capacity calculations. While we support the intent of the proposal to ensure that only truly interruptible capacity is released, and not essentially firm capacity, we are concerned that the proposed solutions may have a detrimental impact on security of

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supply or facilitate the potentially anti-competitive hoarding of entry capacity. We believe that any amendments to the UIoLI calculations should ensure that the maximum amount of capacity is released when required and that there is no ability to hoard the capacity from the market. We do not believe that the solutions identified at this stage resolve these issues.

I hope you find these comments useful, however please contact my colleague Stefan Leedham (Stefan.leedham@edfenergy.com, 020 3126 2312) if you wish to discuss this response further.

Yours sincerely

Seb Eyre

Dr. Sebastian Eyre
Energy Regulation, Energy Branch

Attachment

NTS Entry Charging Review Detailed Questions

EDF Energy's response to consultation questions

Q1. Whether the objectives of the review are appropriate, namely to identify any charging methodology and/or UNC modifications required to:

a. Continue to recover allowed revenue while achieving the NTS Licence and EU relevant charging objectives.
   This appears appropriate given that there would be potentially significant penalties for non-compliance with NGG NTS' Licence or the EU Regulations.

b. Maximise the proportion of NTS TO target entry revenue recovered through entry capacity charges.
   Given the concerns raised by Shippers regarding the impact of a high TO Commodity charge we believe that this is an appropriate objective. However we would note that the objective is to maximise the TO target revenue recovered from capacity charges. EDF Energy believes that there will continue to be a roll for the TO Commodity charge to ensure NGG NTS recover their target revenue.

c. Appropriately incentivise long term booking of NTS Entry Capacity.
   EDF Energy recognises that there are benefits to NGG NTS in planning and managing the development of the system through receiving long term entry capacity signals. However we believe that this should also reflect the operational requirements of Shippers. We therefore believe that there should be recognition that not all Shippers will be able to book long term capacity due to their operational requirements and uncertainty. We are also concerned that in Europe there are issues with long term capacity bookings which should not be replicated in the UK.

d. Appropriately differentiate by price between the NTS Entry Capacity products made available.
   This is a relatively vague and open objective; however EDF Energy has concerns with some of the interpretations and impacts that this objective could have. In particular we would note that if it was deemed appropriate to place a premium on shorter term capacity, this could foreclose the market to new entrants and provide an unfair advantage to established players. This would be detrimental to competition and potentially have a negative impact on security of supply.

e. Incentivise Security of Supply.
   Given the issues recently highlighted in Project Discovery we believe that this objective should be promoted in significance. Any proposal or solution should ensure that either security of supply is improved or that there is no detrimental impact on security of supply.

Q2. Whether a phased implementation approach, as suggested by the ECRG, is appropriate, with;

a. Phase 1 comprising removal of entry capacity discounts and
   EDF Energy remains concerned with the level of regulatory change that is impacting on the UK Entry Capacity regime. Since setting the TPCR for 2007-12 the entry capacity regime has been subject to re-setting baselines, implementation of

substitution and a transfer and trade regime along with moving from a UCA to LRMC basis for setting entry capacity reserve prices. The outcome and impacts of these will take time to feed through into capacity booking strategies and so the amount of revenue collected by NGG NTS from capacity sales. It has been noted that this level of regulatory change is reducing the attractiveness of the UK for investment in new gas supplies. We therefore believe that prior to moving to the removal of firm entry capacity discounts these new regimes should be allowed time to bed in and for their impacts to be identified. Once the impacts of this has been identified then it may be appropriate to review the removal of entry capacity discounts.

b. **Limiting the release of interruptible capacity to when firm capacity has sold out or is close to selling out.**
   EDF Energy does not support the proposed amendment to the release of interruptible capacity at this stage. We believe that if required NGG NTS could implement the proposed changes to the charging methodology without implementing any changes to the release of interruptible capacity.

   We would note that the issue of interruptible capacity was a complex and lengthy discussion in 1996, with the main objective of ensuring that capacity could not be hoarded and that the maximum amount of capacity could be released when required. The mechanisms proposed by NGG would re-introduce the hoarding of spare capacity and could have a detrimental impact on security of supply. In particular we would note that NGG NTS' proposal is to only release interruptible capacity when 90% of firm capacity has been sold. However NGG NTS are also proposing to base this on RMTTSEC sales. This could therefore result in a Shipper purchasing the capacity at the day ahead stage, with no intention of flowing against it, in the hope of exploiting any stranded gas off shore. NGG NTS' proposed calculation would not release any interruptible capacity. Given the issues around security of supply recently highlighted in Project Discovery and elsewhere we believe that this could have a detrimental impact on the market.

c. **Phase 2 covering further changes in light of experience of phase 1 including the potential re-introduction of price multipliers for daily and monthly capacity.**
   As previously noted EDF Energy is concerned at the pace of regulatory reform that is occurring on entry capacity charges. If NGG NTS determines that reform is required then we believe that a phased approach is appropriate. There should be sufficient time between reforms to identify what the impacts of the previous reform are, prior to undertaking the next stage of the review, ideally incorporating at least one winter. At this stage we do not believe that it is appropriate to re-introduce price multipliers. We believe that this is going against developments in Europe which was a primary objective of any reform and could have a detrimental impact on competition and security of supply.

Q3. Should the 50-50 entry-exit TO revenue split within the Charging methodology be retained or should an increased proportion be allocated to exit with a reduced proportion for entry?
EDF Energy believes that the current 50-50 entry-exit TO revenue split should be maintained. When developing the exit capacity regime Shippers recognised that an

impact of being able to "lock in" their capacity charges would increase the risk and impact of a TO Commodity charge as NGG NTS would always recover their allowed revenue. In order to reduce this risk Shippers opted for greater uncertainty over their future capacity charges, taking the rate applicable in the gas year. We do not believe that it is appropriate to alter this risk reward balance as entry capacity Shippers wish to lock in capacity charges are not be exposed to any entry capacity under recovery.

Q4. Should the TO Entry Commodity charge continue to apply uniformly to all entry gas flow allocations excluding storage and "short-haul"?
EDF Energy believes that the current TO Commodity charging arrangements should continue to apply. We have seen no evidence to suggest that the current charging arrangements are not cost reflective and that applying these charges to storage capacity Shippers and "short-haul" charges would result in more cost reflective charges.

Q5. Should the prevailing quarterly, monthly and daily entry capacity products, auction timings, and auction frequencies be changed or reviewed?
As previously noted the entry capacity regime has undergone significant regulatory reform in recent years. EDF Energy is concerned that this level of regulatory reform will reduce the attractiveness of the UK market for investment. The current capacity products and auction timings have been developed to meet the operational requirements and needs of Shippers, and so moving away from this regime at this stage would not appear appropriate. We would note that developments in Europe may require a review of these products however this should lead developments in the UK rather than the UK trying to predict the outcome of these developments.

Q6. Removal of Discounts

a. **Should the discounts that apply to day-ahead (DADSEC) firm daily entry capacity be removed?**
EDF Energy is concerned that removing the DADSEC discount could have a detrimental impact on competition and security of supply. Currently this discount allows Shippers to take arbitrage opportunities across markets, and the DADSEC discount makes the UK an attractive market. Removing this discount may reduce this attractiveness and result in gas being supplied to other markets. This would have a detrimental impact on the UK's security of supply position.

b. **Should the discounts that apply to within-day (WDDSEC) firm daily entry capacity be removed?**
Please see answer above.

c. **Should a revised calculation for day-ahead (DADSEC) and within-day (WDDSEC) firm daily entry capacity apply such that both prices (p/kWh/day) are equal to the rolling monthly auction reserve prices?**
Please see answer above.

d. **Should the zero reserve price that applies to daily Interruptible entry capacity (DISEC) be retained?**
EDF Energy believes that the DISEC discounts should be maintained. We would note that under the UNC Shipper capacity charges are based on the unadjusted capacity

bookings – i.e. prior to interruption. If the DISEC discount was to be removed EDF Energy believes that the UNC should be modified so that the Shipper capacity charges based on the UNC should be based on the adjusted amount – after interruption. This may also impact on NGG NTS' target revenue.

Q7. UNC Changes

a. **Should the calculation of the Daily Interruptible NTS Entry Capacity quantity released be reviewed?**
   EDF Energy believes that it may be appropriate to raise a UNC review proposal on the interruptible NTS Entry capacity calculation. However any review should ensure that there are no detrimental impacts on security of supply or introduce the ability to hoard capacity. The current UIoLI arrangements have been demonstrated to work appropriately at the Barrow terminal historically. We do not believe that the proposals that have been presented by NGG NTS to the Transmission Workstream provide adequate protection to these risks.

b. **Should Daily Interruptible NTS Entry Capacity at each ASEP be limited to when the firm entry capacity at the ASEP has sold out or is close to selling out?**
   EDF Energy does not believe that interruptible NTS Entry Capacity should only be released when firm capacity has sold out. We believe that this could limit the amount of capacity that is made available to the market when required on a peak day. This would also open up gaming opportunities for Shippers, all of which would have a detrimental impact on security of supply.

c. **Should the revenue from the sale of within-day obligated NTS Entry Capacity continue to be redistributed via the entry capacity neutrality mechanism?**
   It would appear that the revenue of within-day entry capacity should be allocated towards the TO revenue calculation under NGG NTS' Licence. However we believe that additional analysis is required to demonstrate that making this capacity available does not result in higher system operator costs, in order to fully support this proposal.

Q8. Licence Changes

a. **Should the Licence clearing obligation be removed?**
   EDF Energy believes that NGG NTS should have a clearing obligation under its Licence. This should ensure that the maximum amount of capacity is released and not withheld from the market. As previously noted we are not convinced that the entry capacity discount should be removed, however if it is deemed that the discount should be removed, then EDF Energy believes that the clearing obligation should be maintained to ensure that NGG NTS makes the maximum amount of capacity available.

b. **Should the revenue from the sale of within-day obligated NTS entry capacity continue to be treated as SO revenue or should it be treated as TO**
   Please see answer to Question 7 C above.

EDF Energy
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