

Richard Hounslea
Regulatory Frameworks
National Grid
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Dear Richard

NTS GCD09: NTS Enduring Exit Capacity Charge Setting

EDF Energy is one of the UK's largest energy companies. We provide 50% of the UK's low carbon generation. Our interests include nuclear, coal and gas-fired electricity generation, renewables, combined heat and power plants, and energy supply to end users. We have over 5 million electricity and gas customer accounts in the UK, including both residential and business users.

We welcome the opportunity to respond to this consultation and have provided detailed responses to the specific questions as an appendix to this letter. The key points of our response are:

- While we do not believe that gas charging issues should be prioritised by Project TransmiT, it is reasonable for this change to the gas charging methodology to be put on hold until the outcomes of Project TransmiT are known. Once any implications for gas are understood, this and any other longer term issues might be considered more holistically and therefore limit the regulatory risk to which the industry is exposed.
- Any methodology change should be subject to testing under different scenarios to ensure that it will remain fit for purpose in the long run and not require subsequent changes in the near future.
- There does not appear to be a pressing need for GCD09 at this time, as the issues identified by National Grid do not take effect until 2012, and it is unclear whether they might disappear after the July 2011 withdrawal window.
- The current charging methodology is applied to all NTS Exit Points in England, Scotland and Wales. Any changes should address issues that affect all of GB and, at this stage, we have not received sufficient evidence to demonstrate that this is not an issue specific to particular geographic areas.

We note that Ofgem has recently launched a Call for Evidence into Transmission charging issues for both gas and electricity. We believe that given the challenges facing the electricity transmission regime, the focus of this review should be on the electricity

transmission charging regime and gas should not be included in scope. However, we also believe that there will be a value at the end of the process to review the gas charging arrangements to ensure that they remain appropriate and do not create perverse incentives in light of the electricity review. This review is due to be completed by Summer 2011 and so, it is appropriate to defer any reform until the outcome of this review and any implications for the gas charging regime are known. The issues identified by National Grid in GCD09 do not have a significant effect until 2012 and this is consistent with a deferral until TransmiT concludes.

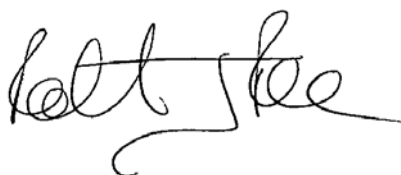
The change brought about by GCM05 was designed to ensure that those Shippers who opted for the offpeak or interruptible products post 1 April 2012 continue to be exposed to some of the transportation costs, and would help to reduce the volatility of exit capacity prices, as baselines would fluctuate less than demand forecasts. We believe that these objectives remain appropriate when considering the options identified within GCD09.

It would be prudent to stress test any methodology to ensure that it remains appropriate in likely future conditions. This will help ensure that any methodology change does not need to be amended in the near future and should reduce the regulatory uncertainty faced by the industry. We therefore believe that, prior to landing on any firm conclusions for consultation, National Grid should subject these conclusions to a series of stress tests to ensure they will bear the test of time.

Our detailed responses are set out in the attachment to this letter.

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

A handwritten signature in black ink, appearing to read "Rob Rome".

Rob Rome
Head of Transmission and Trading Arrangements
Corporate Policy and Regulation

Appendix 1 EDF Energy Response to Questions for Discussion

Demand Data

Q1. For each offtake type, which data source do respondents consider to be the most appropriate source of demand data for modelling flows within the Transport section of Transportation Model?

- **DN offtakes**
- **DC offtakes**
- **Storage offtakes**
- **Bi-directional Interconnectors**
- **Exit only Interconnectors (Moffat)**

At this stage, we do not believe that a case has been made that the current methodology is inappropriate, and so, the baseline plus incremental capacity method provides the most appropriate model at this time. In particular, we note that whilst National Grid has identified that under the current arrangements baselines plus incremental may outstrip supplies from 2012/13, we do not believe that they have sufficiently demonstrated that this is an enduring issue and not a transient problem caused by the implementation of an enduring exit regime model.

Specifically, under the enduring exit capacity arrangements, Shippers were allocated enduring exit capacity based on their capacity bookings at a specified point of time. This included both their interruptible and firm exit capacity bookings. This means that currently some Shippers who have historically relied on interruptible capacity have been allocated enduring firm exit capacity post 1 October 2012. However, Shippers are able to withdraw from this capacity obligation up until July 2011 with no penalties, providing a free option on this capacity. This suggests that the issue identified by National Grid might be transient in nature and could disappear post July 2011.

We would also note those baselines (and any incremental capacity triggered) represent the obligations on National Grid regarding capacity delivery. With the introduction of exit capacity substitution, we believe that baselines will become more reflective of connected load over time. We therefore believe that it is appropriate that National Grid charges on this basis as it represents the assets in the ground and the obligations that National Grid has to meet.

Q2. Do respondents consider alternative sources of demand data to be more appropriate?

We believe that National Grid has identified the appropriate sources of demand data, but note that, at this stage, the case has not been made for changing the methodology.

Supply Data

Q3. For Beach/UKCS, which data source do respondents consider to be most appropriate to use for exit capacity charge setting purposes?

- **Obligated Entry Capacity**
- **Ten Year Statement**

The issue of data sources for beach and UKCS flows was discussed and consulted upon in GCM16, which Ofgem directed implementation for 1 October 2009. The aim of this methodology reform was to address the instability that was occurring in exit prices as a result of supply fluctuations, with only 9 out of 48 supply points experiencing relatively stable year on year exit capacity charges (changes of less than 10% each year). The impact of this change was that Ten Year Statement data was used for beach and UKCS supply forecasts, as this was relatively stable, whilst other facilities would move to obligated entry capacity, as they were price sensitive supplies, and so, forecasts were volatile year on year, as the markets changed. At the time of consulting and implementing GCM16, the view was that for price sensitive supplies, it was appropriate to use obligated capacity, as this would be no more inaccurate than the current forecasts but would provide stability.

We continue to believe that the methodology, implemented by GCM16 in October 2009, remains the appropriate methodology. Beach and UKCS supplies are relatively stable, compared to other forecasts and provide the most accurate view of flows for the model. We are also unsure from National Grid's discussion document, as to whether volatility in the identified areas has been caused by fluctuations in supply forecasts or demand forecasts for Moffat. Finally, we would note that this is a methodology for GB, and so any proposed change should address a GB issue. At this stage, we have not received sufficient evidence to demonstrate that this issue is spread across GB, or that this is having a material impact.

Q4. Do respondents consider averaging supply data from a number of Ten Year Statements to be an appropriate approach to dampening exit price volatility?

There has not been sufficient evidence provided to demonstrate that there are significant issues with exit price volatility across GB. We do not believe that averaging Ten Year Statement data is appropriate, as this fails to reflect developments in the Transportation business.

Q5. Do respondents consider using data from the Ten Year Statement at the time of the first (Y+4) Enduring Annual NTS Exit (Flat) Capacity application for the relevant gas year to be appropriate?

We do not believe that this is appropriate, as it fails to take into account developments in the Transportation business.

Q6. Do respondents consider alternative sources of supply data to be more appropriate?

We believe that the current data sources, as implemented by GCM16 in October 2009, are appropriate.

General

Q7. Do respondents support either a target implementation date of 1st May 2011 (ahead of the next exit application window) or an alternate implementation date?

Given the launch of Project TransmiT, we believe that no changes should be progressed until the outcome of this review is known and the implications (if any) for gas charging is understood. This would suggest that an implementation date of 1 October 2011 may be appropriate. This would allow National Grid and the industry to ensure that any changes are co-ordinated and so limit the risk to industry and consumers. Further, as the issues identified by National Grid do not take effect until 2012, this does not need addressing immediately.

Q8. What further analysis would respondents like to be included with any future consultation?

As previously noted, any short listed proposals should be subject to stress testing under different scenarios to ensure that they will not require further modification in the near future. In addition analysis of actual volatility in charges year on year would be beneficial – this should cover all exit points in GB, cover both pre and post GCM16 time periods and show year on year volatility as a percentage.

**EDF Energy
November 2010**