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30 November 2006

Dear Jan

EDF Energy Response to NTS GCM01: "Alternative Methodologies for Determination of NTS Entry and Exit Capacity Prices."

EDF Energy welcomes the opportunity to respond to this consultation and offer our views on the Transportation and Transcost Model Options that have been proposed. As a general principle EDF Energy supports increased Transparency within the market that will provide signals and incentives. We believe that Transparency is the foundation of any competitive market, and crucial for the planning and development of any business that operates in a competitive market. We therefore fully support the implementation of the Transportation Model and the associated transparency that this will bring to the market.

In relation to the particular questions that this consultation is seeking views on, EDF Energy would make the following comments:

Q1. The Treatment of Spare Capacity and the Backhaul Benefit.

- It would appear that the inflexibility of Option 1 to overcome the backhaul benefit prevents this from being a feasible solution. Option 2 on the other hand can be manipulated to accommodate spare capacity, whilst still retaining a backhaul benefit, and so appears to offer the most attractive solution.
- We would note that this does not necessarily mean that the inclusion of spare capacity within the Transportation model is a good idea, for reasons discussed below.

Q2. NTS Capacity Price Determination.

- As previously stated EDF Energy fully supports transparency in the UK market to aid purchase and investment decisions. This transparency however is only delivered through the Transportation model which Users will be able to manipulate to reflect their views on the supply demand fundamentals. This will allow potential developers that require an NTS connection to undertake a full investment appraisal based on the outcome of this model.
- We would also note that under the current regime the method of calculating exit capacity prices is a black art, with Users unable to replicate the outcome of this model for themselves. Introducing a more Transparent process that Shippers can duplicate will aid competition between Shippers in the gas market, and between generators in the electricity market as they will be able to locate in the most advantageous position from both market models.

- We would further note that we regularly utilise the electricity DCLF ICRP model within our business when making strategic decisions. This model provides us with Transparency that currently is not available within the gas market when making our strategic decisions.

Q4. The Treatment of Spare Capacity

- Option 2a is able to incorporate spare capacity into the Transportation Model, however in order to implement Option 2a National Grid will be required to forecast the base case supplies through each entry point, rather than the capacity. Whilst possible the ability to predict flows will be harder than predicting capacity which has been signalled through the long term auctions and licence obligations. We believe that whilst this may allow spare capacity to be incorporated into the model this will reduce the transparency and stability of prices that the model produces.
- The benefit of Option 2bis that there is no cross subsidisation, and the modelling process is Transparent. However the impact of this is that the concept of spare capacity is not incorporated into the model, and so no signals will be given to Shippers that spare capacity could be available. This could potentially lead to stranded assets, however we would note that could be overcome by maintaining the current short term reserve price discounts, which may encourage Shippers to utilise the spare capacity if it is available.
- Spare capacity could also be incorporated into Option 2b by discounting the incremental investment prices at entry points where there is spare capacity. However we would note that this would lead to cross subsidisation from entry points with no spare capacity to those entry points that have spare capacity. This process would therefore be subjective as National Grid would be required to identify the volume of spare capacity that it believes is available and discount the entry points appropriately.
- It would therefore appear that Option 2b is the most user friendly solution, providing transparency and cost reflectivity to the market. We do not believe that this Option should be manipulated to incorporate spare capacity as this process will be subjective and distract from the benefits that this model provides.

Q5. Incremental Entry Capacity Prices

- We believe that the arguments in favour of transparency and stability can be applied to both exit and entry points. We therefore believe that deriving incremental entry capacity prices from the Transportation Model is the most favourable solution.

Q9. No year on year capping.

- EDF Energy fully supports the removal of the current price caps as we believe that they are distortionary and prevent the charges being cost reflective. We are however also aware that in the past they have provided stability to the market when Users have not had predictability around the exit capacity charges. It would therefore appear that these caps are not necessary when combined with the Transportation Model, as Shippers generally value predictability over stability. It also appears that in the absence of predictability, stability is an issue, it may therefore be appropriate to retain the price caps, but reset the exit capacity charges at the start of every price control so that the charges remain more cost reflective.

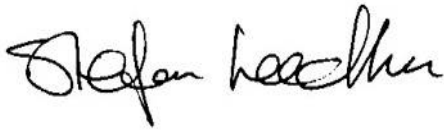
Q10–13. Implementation

- As previously stated we believe that transparency is essential for a well functioning competitive market. We therefore fully support the release of the combined Transport and Tariff model to the industry. This will aid transparency and encourage competition in both the gas and electricity markets.

- It is clear that any decision on these models should be an enduring solution, capable of withstanding predictable situations. It would therefore appear that setting an end date on the use of these models would artificially restrict the life, and usefulness of these models, whilst suggesting that a sub-optimal solution was being implemented. We therefore recommend the expedient implementation of this model as an enduring solution.

I hope you find these comments useful, and please contact me should you wish to discuss these further.

Yours sincerely

A handwritten signature in black ink, appearing to read "Stefan Leedham".

Stefan Leedham
Gas Market Analyst
Energy Regulation, Energy Branch.