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Dear Eddie

**EDF Energy Response to Consultation Document NTS GCM05: “Modification Proposals to the Gas Transmission Transportation Charging Methodology”.**

EDF Energy welcomes the opportunity to respond to this consultation. However we are unable to support these proposals.

As noted by National Grid in paragraph 6.5 of the consultation the objective of NTS Exit (Flat) Capacity price is to provide locational signals to Users in relation to the cost of providing capacity at various parts of the network. In simplistic terms the objective of the Transportation Model is to encourage new supplies to come to the UK market close to areas of demand, and to encourage demand to locate close to existing supplies. Under the current arrangements, the Transportation model delivers these locational signals, with low entry prices in the South East and low demand charges in Scotland.

However the Transportation Model is constrained to only produce charges that are not negative. Under the current arrangements this is less of an issue as bi-directional points who are able to access spare capacity on the system at zero cost. Exit reform proposals would reform the access to these arrangements and could force bi-directional points to book firm exit capacity. It is EDF Energy’s understanding that were the Transportation Model to operate without constraints, then the charges for bi-directional storage points would net to zero, once the baseline obligated capacity had been triggered. This is consistent with the concept of locational charging where you would expect an area with a high exit charge to attract an inverse entry charge. However by constraining the model to not produce negative charges these locational signals are lost, with bi-directional points locating close to demand attracting a high exit capacity charge and a small entry capacity charge. Given this clear interaction for bi-directional points we believe that these associated issues should be considered together. However this proposal only focuses on exit charges and so we do not believe that it addresses all of the issues associated with exit reform.

This would not appear to encourage the efficient and economic development of the pipeline system and would also appear inconsistent with the requirement to ensure that the charges reflect the costs incurred by the Licensee in its Transportation Business. It would appear that negative LRMCs and so negative prices would indicate that connecting to this part of the network would provide a benefit to the Transporter, and so reduce costs incurred; however this does not feed through into the charges developed by the model. This is further supported by the fact that wholesale prices are sensitive to demand and supply

fundamentals, with unexpected increases in demand resulting in an increase in wholesale prices, as witnessed when the GBA was issued in March 2006. It would appear reasonable to assume that bi-directional points would respond to these price signals by supplying gas to the UK, providing a further benefit by delivering gas to where it is required. We therefore believe that with exit reform it is important that the Transportation Model is allowed to develop negative entry LRMCs and prices to ensure that charges reflect the costs incurred on the Transportation business. For clarity we do not believe that it is appropriate to develop negative LRMCs for demand as this could create perverse signals that would be detrimental to the operation of the UK's system.

Finally we would note that under the EU Regulations there is a requirement to factor the likelihood of interruption into interruption charges. We would note that in order to meet peak day demand NGG requires bi-directional points to be supplying gas. This would suggest that were bi-directional points be able to access interruptible exit capacity, there would be a high likelihood of interruption were they to be acting as an exit point during periods of peak demand in order to avert a Gas Deficit Emergency. We therefore believe that it is appropriate to set reserve prices to zero for interruptible exit capacity.

I hope you find these comments useful. Please contact my colleague Stefan Leedham ([Stefan.leedham@edfenergy.com](mailto:Stefan.leedham@edfenergy.com), 0203 1236 2312) should you wish to discuss this further.

Yours sincerely