

Richard Miller  
Gas Transmission Policy  
Ofgem  
107 West Regent Street  
Glasgow  
G2 2BA

22 July 2010

Dear Richard

### **Review of NTS Entry Charge Setting Arrangements - Impact Assessment**

EDF Energy welcomes the opportunity to respond to this consultation. We support Ofgem's findings within the Impact Assessment and agree with Ofgem that these proposals should be rejected.

Whilst EDF Energy has supported the entry charging review with the aim of addressing the variable and volatile TO Commodity charge, we do not believe that the solutions presented by National Grid Gas (NGG) represent the best solution. We therefore support Ofgem's initial view to reject both NGG NTS' charging proposal along with the associated UNC Modification Proposals. EDF Energy believes that:

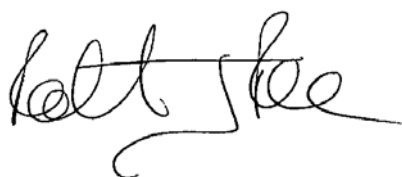
- The reserve prices for entry capacity should be related to the marginal cost of making that capacity available. As there is limited, if any cost with making short term capacity available then the charging methodology, and reserve prices should reflect this.
- Setting the reserve prices of short term capacity so that they are based on the Long Run Marginal Cost (LRMC) would result in a cross subsidy from Shippers purchasing short term capacity to those purchasing long term capacity.
- If capacity is available on the system then this should be made available to Shippers, and should not be constrained. We therefore agree with Ofgem that implementation of UNC proposal 0285 would result in short term capacity being artificially restricted which could have a detrimental impact on market liquidity.
- Ofgem's interpretations of the EU Third Package are correct, in that as interruptible capacity is released through an auction based mechanism then the likelihood of interruption does not have to be included in the reserve prices. We would also note that in an efficient market it is likely that the risk of interruption would be built into bids for interruptible capacity, as Shippers would place a lower value on capacity that was at high risk of being interrupted.

- The proposals as raised by NGG NTS have failed to take into account developments in the UK Gas Market. In particular we note that these proposals appeared to be based on Shipper capacity booking arrangements before the introduction of substitution and transfer and trades, which we believe is likely to discourage Shippers from booking short term capacity and potentially in the longer term make the gas system tighter. We would also note that these proposals have failed to take into account the movement from UCAs to LRMC for developing reserve prices in the longer term auctions.

EDF Energy has provided detailed answers to the questions posed by Ofgem as an appendix to this letter.

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

Yours sincerely

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

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

## Appendix

### Ofgem IA Questions

#### CHAPTER: Three

##### **Question 1: Do you agree with NGG's analysis on the impacts of removing the reserve price discounts?**

EDF Energy believes that NGG NTS' analysis has overestimated the impact that implementation of these proposals would have. In particular we note that NGG NTS' analysis was based on Shipper bookings in 2008/09 and the impact that these proposals would have on revenues based on these bookings. During this period transfer and trade arrangements were introduced into the UNC through Modification 0187A, and since then entry capacity substitution has been implemented. EDF Energy believes that both of these reforms will increase the risk associated with booking short term capacity products and so encourage Shippers to book long term capacity if they are able to, as there is no guarantee that the short term capacity products will still be available. EDF Energy therefore believes that this will reduce the impact that NGG NTS' has identified as there will be less reliance on short term capacity bookings.

EDF Energy also believes that NGG NTS' analysis has overstated the scale of the issue in the future. In particular whilst we recognise that the TO Commodity charge is being used to collect an increasing proportion of TO revenue, this is in part being driven by the fact that the TO revenue is still correcting for entry capacity brought at the UCA reserve price. As more capacity is secured at the LRMC and not the UCAs, then the shortfall in TO revenue will reduce along with the impact of the TO Commodity charge.

In short therefore, EDF Energy believes that NGG NTS' analysis has over estimated the scale of the problem and also over estimated the impact of their proposals as they have failed to take into account the impact of substitution and transfer and trade on Shipper bookings and so revenue.

#### CHAPTER: Four

##### **Question 1: Do you agree with our analysis of the proposals against the appropriate objectives?**

EDF Energy fully supports Ofgem's analysis of the proposals against the relevant objectives.

**Question 2: Do you agree with our provisionally preferred approach which would be to not implement any proposal to reallocate the revenues from baselines?**

EDF Energy fully agrees with Ofgem's minded to approach to reject all of the proposals.

**Question 3: Are there any other factors we should consider?**

EDF Energy believes Ofgem has covered all of the major factors.

**CHAPTER: Five**

**Question 1: Do you agree with our analysis of each of the options against the measures we consider?**

As previously stated EDF Energy believes that NGG NTS' analysis has overstated the impact that these proposals would have. As this analysis is also used to underpin the analysis for Options 2 and 6, EDF Energy therefore believes that Ofgem's analysis is also overstated.

**Question 2: Are there any other measures we should have assessed the options against?**

EDF Energy believes Ofgem has covered all of the appropriate measures.

**CHAPTER: Six**

**Question 1: Do you agree with our analysis on the impacts of the options on existing and future consumers being their interests as a whole in terms of both security of supply and reduction of greenhouse gases?**

EDF Energy agrees with Ofgem's analysis on existing and future customers with regards to the impact of these proposals on security of supply and greenhouse gas emissions.

In particular we would note that long term investment decisions are driven mainly by wholesale gas prices, and as such these are significantly more volatile and unpredictable than the gas entry charging arrangements. Given that Shippers are able to forecast, and invest on the back of these signals, we believe that the impact of variable TO Commodity charges on investments and security of supply have been over stated. We would also note that it is the predictability of charges that are important when undertaking investment decisions, and stable charges are one way of being able to forecast these charges. EDF Energy therefore believes that an alternative solution would be for NGG NTS to explicitly forecast the revenue that they believe they will collect from TO Capacity sales in the long run. Shippers will then be able to use this to forecast the TO Commodity charge and build this into their investment decisions.

EDF Energy would however recognise that the TO Commodity charge may impact on Shippers' decision on where to flow gas in the short term, if they have arbitrage opportunities across markets. However, we believe that in these instances this would be viewed as a SRMC that Shippers would seek to recover, and as such will be built into the wholesale gas prices.

We therefore agree with Ofgem's analysis that implementation of any of these proposals, or combinations, would have any material impact on the UK's security of supply.

**Question 2: Do you agree with our analysis on the impacts on health and safety?**

EDF Energy agrees with Ofgem's analysis.

**Question 3: Do you agree with the risks and unintended consequences we have identified?**

EDF Energy agrees with Ofgem's analysis.

**Question 4: Are there any other impacts we should have addressed?**

EDF Energy believes Ofgem has covered all of the significant impacts.

**CHAPTER: Seven**

**Question 1: Do you agree with our conclusions?**

EDF Energy fully supports Ofgem's conclusions.

**Question 2: Are there any other issues that need to be raised to inform the Authority's decisions on these proposals?**

EDF Energy believes Ofgem's analysis has covered all of the issues that need to be raised to inform the Authority's decisions.

**EDF Energy  
July 2010**