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Initial proposals on transitional incentive schemes supporting the offtake arrangements

Dear Mark,

Thank you for giving EDF Energy the opportunity to respond to Ofgem's Initial view of transitional incentive schemes for NTS offtake arrangements.

EDF Energy generally agrees with Ofgem's initial proposals for DNs access to NTS Exit capacity and that the current incentives do not need to be rolled into the transition period 2009/10 to 2010/11.

We continue to believe that the current ARCA regime for NTS Direct Connects (DCs), which has been generically applied to DNs, is the most economic, transparent and non-discriminate way for NTS offtakes to signal and request extra NTS exit capacity. However, we believe the National Grid's (NG) option to defer the date on which capacity is made available needs to be addressed as there are no claims procedures to compensate affected parties. Incentives on NG NTS may be needed to ensure that capacity is provided in the timescales agreed under the ARCAs.

Regarding the price of NTS Exit rights, we agree with Ofgem that the prevailing (outturn) price of NTS exit capacity continues to be the most appropriate reference price for NTS flexibility capacity in the transitional period. However, we disagree that DNs should be purchasing NTS flexibility rights at the same price as NTS DCs in the long-term because of the fundamental differences between DNs and smaller customers requesting NTS exit rights. Ofgem has stated in para. 4.15 of their consultation that DNs are able to respond to incentives and price signals by substituting NTS Offtake capacity (Flat) and NTS offtake (flexibility) capacity between their different exit zones in their networks. DNs can therefore make use of the diversity of their network to take advantage of economies of scope and scale which NTS Shippers, most with only 1 offtake point, cannot. To apply a single price or uniform arrangements would promote far more discrimination between different NTS offtake point types than the level of discrimination that currently exists. Ofgem's enduring offtake arrangements should be amended to take this into account.

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We also agree that it is sensible to review the 15-day interruption incentive at the time of the next distribution price control.

If you would like to discuss any of our comments further please contact me on the number below.

Yours sincerely

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