

Robert Hull
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Dear Robert,

Transmission Price Control Review 2007 – 2012: Third Consultation

EDF Trading (EDFT) wishes to submit the following in response to the above consultation document.

In this response EDFT will provide views on Chapters 4 and 5 relating to the gas incentives proposals, however, we look forward to examining, more closely, the other aspects of the Price Controls in the forthcoming Initial Proposals document.

Chapter 4 – Gas entry incentives

In general EDFT welcomes the initiative to introduce greater flexibility in the allocation of entry capacity across entry points. In extreme cases there is potential for long term capacity to be “stranded” at entry points with declining throughputs, although this is countered, to some degree by the Licence obligation to release theoretical maximum volumes at each entry point.

The proposal set out in the document is a radical change from the current practice of regulated baseline quantities and must be considered very carefully. It is proposed that NGG NTS are provided with greater flexibility in determining the volumes of capacity to be released at each entry point, subject to the publication and application of a “release methodology.” Importantly, the total volume of capacity to be released across all entry points, which will better reflect available capacity, will be lower than that released under the current arrangements. Admittedly, NGG NTS will be subject to an obligation to release all available capacity, however, it would be reasonable to suggest that the determination of available capacity is not an exact science.

Originally, the setting of baselines at theoretical maximum levels was introduced to guard against the sterilization of capacity and to only reward NG for incremental investments made over, and above the baseline volumes. The new proposal provides for the introduction of a trigger level at each entry point, above which the provision of incremental capacity would be appropriately awarded. In effect, EDFT would argue that the trigger levels are synonymous with baselines insofar as they are predetermined volumes above which Users will need to make a commitment at a price higher than the reserve price. In addition NGG NTS will, as is the case in the current regime, receive a revenue allowance for incremental capacity provided in excess of the trigger levels.

The volumes accredited to the trigger levels at each node will be, according to the proposal, based on realistic capabilities i.e. lower than the volumes derived under the theoretical maximum approach. The analysis provided in Appendix 10 is not particularly helpful as it is noted that the total flows recorded exceed those provided for by the current baselines. It is clear that these levels would be at odds with the proposal and as a result, the final trigger levels will have to depart from those provided in the analysis. On this basis, we struggle to see the value in the analysis in relation to setting trigger levels.

EDFT can only assert, at this stage, that the proposal is well intended, but it is not an improvement on the current approach. The principal behind the proposal is sound, but EDFT believes it could be better achieved by introducing a minor modification to the current process. The setting of baselines at theoretical maximum levels should be maintained as this permits a degree of flexibility between entry points. In the event that capacity is unutilized and is demanded elsewhere it would be appropriate for NGG NTS to apply for the modification of the baselines stated in the Licence. This would ensure that there is transparency in the process for substituting capacity.

With regards buybacks, EDFT understands and appreciates the concerns highlighted in relation to the late delivery of capacity and we fully support the treatment of costs and revenues as excluded income and at uncapped levels. We believe, that in general, the current approach to setting buyback prices should be maintained where feasible, but accept that there should be limited exceptions. Buyback exposure should only be limited in the event that late delivery is **wholly** due to factors outside of the control of NGG NTS e.g. planning consent denied. In most cases, NGG NTS will have a degree of control over the process and should be suitably incentivised to meet build deadlines. It should be noted that NGG NTS is able to extend build time on application to Ofgem as provided for in the IECR. In terms of the “administered price” for late delivery, EDFT suggests that it is related to the capacity product as is the case for determining capacity overrun charges.

Chapter 5 – Gas Offtake Incentives

EDFT is satisfied with the proposals relating to the transition regime.

At this stage it is difficult to provide detailed comments on the proposal set out in the document as it is fairly high level. Without fully accepting the need for wholesale change to the exit regime, EDFT will comment on the proposal as presented and in relation to the other proposals previously considered. EDFT is very concerned with the “universal firm” stance of the proposal and believes that it is wholly inappropriate for off-peak demand sites e.g. storage. The proposal only provides for UIOLI capacity and other interruptible volumes at the discretion of NGG NTS. It is not clear that NGG NTS will be appropriately incentivised to release daily interruptible capacity at these sites, particularly in light of the EU Regulation relating to conditions for access to the natural gas transmission networks. We seek reassurance that the incentives will be present and NGG NTS will provide interruptible capacity at storage related offtakes.

Given that storage sites do not offtake gas on peak days, it cannot be regarded as efficient, or cost reflective to require storage users to purchase firm rights, or firm rights at the same cost as an offtake which requires capacity on a peak day. EDFT is of the view that storage sites should be treated differently to other offtakes and be provided with a minimal cost capacity right. In the event that Storage Users are unable to acquire capacity rights at a price proportionate to the cost/value imposed on the System, it could be argued that the regime is discriminatory and further, detrimental to System security.

EDFT looks forward to revised proposals being presented in the next document and in the meantime is happy to discuss any of the matters covered in this submission.

Yours sincerely

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Jonas Törnquist
Head of Transmission and Regulation