

Richard Miller
Manager, Gas Transmission Policy
Ofgem
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3 April 2007

Dear Richard

Charging arrangements associated with methodologies for determination of NTS entry and exit capacity prices: Impact Assessment

EDF Energy welcomes the opportunity to comment on Ofgem's Impact Assessment (IA). EDF Energy supports the implementation of the Transportation model, as proposed by National Grid Gas (NGG), for determining these charging arrangements, as we believe that this will facilitate NGG's relevant objectives.

In particular, we believe that the adoption of the Transportation model will facilitate competition between gas Shippers and Suppliers and ensure that charges are reflective of the costs incurred by the Transporter. While we recognise that a shortcoming of the Transportation model is that it does not include any elements of spare capacity, we are aware that this is overcome by the inclusion of backhaul benefits that are not included in the Transcost model, providing more "logical" locational signals. Our detailed responses to the particular questions that Ofgem has posed in this IA are given in the attachment to this letter.

We believe that the greatest benefit from introducing the Transportation model will be the ability for Shippers and Suppliers to replicate NGG's exit and entry capacity price setting process, something which is currently very difficult to do. This will improve transparency and enable Shippers and Suppliers to predict entry and exit prices with a greater degree of confidence. Competition between Shippers and Suppliers should improve, as they will be better placed to identify their future capacity prices and so compete on an equitable basis for customers. We would further note that being able to replicate the Transportation model will provide clearer locational signals when conducting investment appraisals, thereby encouraging the most "favourable" location of investments. This should be beneficial to the efficient and economic operation of the pipeline system.

I hope you will find these comments useful. If you have any queries on them, please contact Stefan Leedham on 0207 752 2145 or myself.

Yours sincerely

A handwritten signature in black ink, appearing to read "D. Linford".

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Attachment

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EDF Energy's detailed responses to questions raised

Chapter 3

Question 1: Do respondents have any views on the appropriateness of the Transportation model given the relevant objectives specified in NGG's Gas Transporter licence?

EDF Energy agrees with Ofgem that the Transportation model should help ensure that:

- i. Charges reflect the costs incurred by NGG in its Transportation business
- ii. Charges take account of developments in the transportation business
- iii. Competition between gas Shippers and between gas Suppliers is facilitated.

Whilst we recognise that cost reflectivity may be reduced by the replacement of an engineering model with one that does not include spare capacity, we believe that cost reflectivity will be improved by the inclusion of a backhaul benefit and the use of a model with more up to date costs. We recognise that a failing of the current Transcost model is that UCAs are set by Ofgem at the beginning of a TPCR period, and so they are likely to become less cost reflective the further into the period the industry progresses. The Transportation model however can be updated on an annual basis to reflect changes in underlying costs that could not be reflected in the Transcost model. Further, given the concerns that have previously been raised regarding the Transcost model, it is not clear which model is more cost reflective.

EDF Energy would further note that an extra benefit of the backhaul capability is that clearer locational signals for demand to locate close to the point of entry will be provided, thereby avoiding unnecessary investment. We would further note that NGG have raised a modification to facilitate the transfer of spare, or unsold, capacity from one ASEP to another where capacity has been sold out. We believe that this will overcome the issue of spare capacity, and so combined with the inclusion of backhaul benefits ensures that the Transportation model better takes into account developments within the Transportation business than the Transcost model.

As previously discussed, from EDF Energy's perspective one of the major benefits of the Transportation model is its repeatability, brought about by its simplicity and transparency in comparison with the Transcost model. We believe that this will remove a barrier to entry and encourage competition by ensuring that all Shippers have access to a similar level of information. We would further note that from experience of the DCLF ICRP model an additional benefit will be the ability for Shippers to replace NGG's assumptions around demand and supply with their own assumptions and so develop exit capacity prices based on their views of the network.

Question 4: Do respondents have any specific views on the (i) exclusion of spare capacity in the model; (ii) inclusion of backhaul into the model; and (iii) inclusion of only a single expansion factor into the model; and given these features of the proposed model whether the proposed model is an improvement compared with the current model (Transcost)?

EDF Energy is aware that the issue of spare capacity was raised towards the end of the development process for the Transportation model, having previously been dismissed as not

an issue. Whilst we recognise that the exclusion of spare capacity has a negative impact on the cost reflectivity of the model, we are aware that its inclusion is likely to increase volatility and reduce transparency, as it would require a subjective assessment by NGG. We therefore believe that it is appropriate to remove spare capacity from the model to reduce volatility and improve transparency, enabling Shippers to replicate the results. We would further note that NGG's modification proposal to facilitate the transfer of unsold capacity between ASEPs should help to overcome this issue, provided that Ofgem directs NGG to implement it.

We therefore support the introduction of the Transportation model and believe that it represents an improvement over the current Transcost model.

EDF Energy
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