

Joanna Whittington  
Director, Gas Distribution  
Ofgem  
9 Millbank  
London  
SW1P 3GE



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Dear Joanna

EDF Energy response to Ofgem Consultation "NTS Exit & Interruption Incentive for Gas Distribution Networks 2010/11"

EDF Energy welcomes the opportunity to respond to the above consultation. We believe that Ofgem's proposals for the NTS Exit and Interruption incentives for the Gas Distribution Networks (GDNs) for the period 2010/11 represent a reasonable solution given the short period that they are going to be in place.

In particular we believe it is appropriate to maintain the existing arrangements as the benefits realisable from implementing an alternative incentive would be greatly outweighed by the resource required to develop this incentive. We believe that this is a reasonable and prudent approach to adopt when developing these targets. However we are concerned by the significant movement in flexibility requirements that are predicted for 2011/12. Whilst it would appear that the forecasts provided for LDZ Exit zones for 2009/10 and 2010/11 are reasonably consistent there is a significant step change in the amount of flexibility that is predicted to be required in 2011/12.

Whilst we recognise that these figures are on the fringe of the incentive, only impacting on a 6 month period, we believe further explanation and analysis behind these swings is warranted. EDF Energy understands that some of this movement can be attributed to a new calculation of flexibility requirements; however we would request further clarity and explanation. We recognise that these flexibility targets are important at an LDZ system level, rather than at a LDZ exit zone level, however we are aware that the impact of these changes over the two years could have a marked impact on the unit costs associated with the flexibility target by LDZ. In particular it would appear that East Midlands, West Midlands, Northern, North Thames, North West, South East and Welsh LDZs experience a significant increase in their unit costs targets for flex between 2010/11 and 2011/12. We would therefore request further clarification of the driver of this step change.

Information regarding performance against target would have been useful when judging the validity of these incentives; in particular, actual long term bookings by the GDNs, and also flexibility utilisation. This would have provided a useful insight for Users, revealing whether the incentive encourages GDNs to

book some flexibility capacity long term and then rely on the short term mechanisms for meeting their actual requirements, or whether it provided an incentive to book their requirements long term.

NTS exit and interruption incentives will have an important role to play when the mechanisms supporting NTS Exit and GDN Interruption reform are enacted in 2008. We welcome Ofgem's intention to address these incentives through the GDPCR, and note that the information requested above would also prove useful for Users in identifying whether these future incentives are adequate or not.

I hope you find these comments useful, however if you have any further questions please contact me on the number below or our Gas Market Analyst, Stefan Leedham on 0207 752 2145.

Yours sincerely

John Costa  
Manager - Gas Market