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Dear Robert

EDF Energy Response to Ofgem Consultation 234/07 "Transmission Price Control Review – Gas Entry Baseline Re-consultation".

EDF Energy welcomes the opportunity to respond to this consultation.

We note that the consultation is unclear on the reasons behind re-setting the baselines and enacting substitution of capacity. It appears that the argument for resetting the baselines is based around the fact that the historical baselines were set at a level so that in aggregate they were greater than the network's physical capability. This could therefore expose Users and Customers to a significant buy back risk, and suggests that the baselines should be reduced. However it also appears that the historical baselines were set at an artificially high level compared to physical flows, resulting in the sterilisation of capacity. This could therefore expose Users and customers to excessive investment costs, suggesting that NGG should be able to substitute capacity between entry points to reflect demand. However if baselines were greater than physical capacity, then this suggests that the "sterilised capacity" does not physically exist, and resetting the baselines to reflect physical capability would suggest that the majority of "sterilised capacity" would therefore be removed. It would therefore be useful if Ofgem could clarify the issues that they wish to address. If the primary objective is to reset baselines to reflect physical capability, then the issue of sterilised capacity is marginalised, and the ability to transfer and trade sterilised capacity in the short term may meet Ofgem's objectives.

In addition EDF Energy would note that the process for booking entry capacity can be a long term process, reflecting the capital intensive nature of the investments required to make use of this capacity. From EDF Energy's perspective the issues with resetting the baselines as part of the TPCR did not revolve around the actual level that the baselines were set at, but the notice period that was provided and the industry's ability to respond to this change. The baselines that are set by Ofgem in effect set the rules of how Users book their entry capacity requirements and the strategy that they implement. This strategy will be a long term strategy based on the rules that are in place, reflecting the investment period. Changing the rules at short or little notice will impact on the strategy that Users employ, and will create significant regulatory risk if Users cannot respond to this. It would therefore appear appropriate that when any future changes are proposed, sufficient lead time is provided to Users to respond to this. At the extreme this could involve signalling changes that will impact after the long term booking window is closed (i.e. 17 years time), or with sufficient lead time for Users to signal their requirements and NGG to respond (i.e. 42 months).

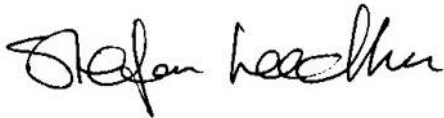
Minimising Regulatory Risk is important to ensure that investment is attracted to the UK to ensure that our demand requirements are met in light of declining UKCS supplies and changing supply patterns. This is therefore fundamental to maintaining the UK's security of supply position, and we would question the detrimental impact that the baseline changes will have had on investment in the UK, given the impact that this had on Excelerate's project at Teeside.

We therefore believe that:

- At a minimum the current baselines should be increased to reflect historical flows levels, or baselines – which ever is the lowest.
- Failure to do this will create significant regulatory risk, which would have a negative impact on the UK's security of supply position. This would feed through to consumers via higher energy costs.
- Increasing baselines will require a large part of the TPCR to be re-opened, however unfortunately this is a consequence of not consulting on this issue fully as part of the TPCR proposals.
- Constraining the baselines may already have had an adverse impact on forward prices for this winter, which is not in the consumers' interest.
- Any future change should be accompanied by sufficient notice period to enable Users to respond to this change and minimise regulatory risk.
- NGG's network model should be audited to provide transparency and assurance to the industry on this model.

I hope you find these comments useful, however please contact me if you wish to discuss this further.

Yours sincerely

A handwritten signature in black ink, appearing to read "Stefan Hoercher".

Gas Market Analyst
Gas Regulation, Energy Branch