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Dear Joanna

EDF Energy Response to Capacity Outputs Incentive for GDPCR – October Consultation

EDF Energy welcomes the opportunity to respond to this consultation and offer comments on the capacity outputs incentives that Ofgem are proposing for the period 1 October 2011 to 31 March 2013.

EDF Energy would however seek clarity in how these incentives will be set for future periods. In particular we note that under the current arrangements GDNs will be required to book exit capacity and accept interruption tenders three years ahead. This means that for the price control for 2013 onwards GDNs will be booking their capacity requirements from 2010, well before the price control and incentives are set. This could create a perverse incentive and regulatory risk for the GDNs if it is not clear how the incentives will operate, and we would welcome Ofgem's comments on how this issue will be addressed.

As a general principle we would note that the outcome of the first interruption tender in 2008 is very hard to quantify, given the extent of reform that has taken place with interruption. With the rest of the industry EDF Energy is concerned that the amount of interruption tendered for in this process will be significantly reduced and well below the expectations that Ofgem and the GDNs appear to hold. We therefore believe that if transpires that a significant amount of capex expenditure is required to support a significant increase in firm loads then before allowing this expenditure Ofgem should consider whether the outcome of the tender and reform was as intended. We do not believe that the GDNs should be penalised for any failures of this reform, and so a capex re-opener should be ruled out, but at the same time we do not believe that the industry and customers should pay for any failings of a reform that was forced through by a licence condition.

Further EDF Energy recognises the difficulty that Ofgem has in setting a flexibility target and incentive. As recognised by Ofgem and the Competition Commission there is currently no scarcity of flexibility capacity, however failure to ensure appropriate targets and incentives are set could encourage the depletion of this product and so make it scarce. This could have a detrimental impact on the UK's security of supply. It therefore appears appropriate that Ofgem and the Gas Transporters identify the amount of flexibility that is currently available in the UK on both distribution and transmission networks. From this it may then be possible to incentivise the Gas Transporters to ensure that the current level of flexibility is maintained, and target an additional incentive for the booking and provision of incremental

flexibility capacity, enabling the GDNs to make the choice between either investing on their own networks or providing signals to the NTS.

In general we support Ofgem's proposals for the interruption incentive. It appears that under Ofgem's proposals the value of the incentive will be capped to £25.3m, significantly below the current cost of interruption of £40m, providing savings to customers. We further welcome the introduction of symmetric incentives so that benefits and costs of any incentive are shared equally between GDNs and customers. However in order to ensure that the benefit of this reform is recognised by customers, we believe that it would be prudent for an exit route to be identified were it to become apparent that the cost of this reform outweighed the benefits. In particular we are concerned that the cost of being interruptible to NSLs is far higher than the current discount that they receive, especially when the costs associated with securing back up supplies including IPPC requirements, CCA costs and EU ETS costs are included. This could result in a significant capex investment being required by the GDNs which customers would have to pay for.

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

Yours sincerely

A handwritten signature in black ink that reads "Stefan Leedham".

Stefan Leedham
Gas Market Analyst
Energy Regulation, Energy Branch