Rachel Fletcher
Director – Gas Distribution
Ofgem
9 Millbank
London
SW1P 3GE

29th April 2008

Dear Rachel

EDF Energy response to Ofgem's Open Letter on National Grid Proposal to commence generating electricity at Gas Distribution Pressure Reduction Sites.

EDF Energy welcomes the opportunity to respond to this consultation and offer comments on the specific questions asked (appended to this letter). EDF Energy does not oppose National Grid being given a derogation allowing it to generate electricity in line with the proposed project plan; however we do believe there are issues that need to be addressed.

In particular EDF Energy would note that National Grid Gas (NGG) is funded by Shippers, via the SO Charges for the compression of gas to enable it to be transported around the UK, and in fact charge a specific compression charge for all gas entering the UK via St Fergus. If National Grid will be realising a value from this compression, then it would appear appropriate that some of this revenue should be used to offset the charges paid by Shippers. We would not want NGG to have a perverse incentive to maintain NTS operational pressures at high pressures in order to maximise generation potential at pressure reduction sites. It would therefore be worth revisiting the recent SO incentive schemes to include the impact on the shrinkage incentive scheme as a result of these turbines. We also believe that it would be inappropriate to wait until 2012/13 before they realised this benefit.

We would also note that the proposal appears to apply to sites connected to National Grid Distribution's (NGD's) system. However they are reliant on NGG on providing them with a compression service, which is currently a free service. It would appear that adoption of this technology would create a chargeable service from NGG, which would require a development of the charging methodology statement.

In addition we would note that under recent Government guidance regarding the application of ROCs to generating equipment using geo-pressure, any fossil fuels used to create the pressure must be taken into account. Currently NGG uses either gas, or electricity to compress their gas, with differing levels of compression required depending on where the gas is being supplied from and where it is being delivered to. We would welcome's Ofgem guidance on how this will be addressed when calculating the ROCs available.

I hope you find these comments useful, however please contact me or my colleague Stefan Leedham (0207 752 2145, Stefan.leedham@edfenergy.com) should you wish to discuss this in greater detail.

Yours sincerely

Dr. Sebastian Eyre
Head of Energy Regulation
Energy Regulation, Energy Branch

Appendix 1

Do respondents agree with NG's proposed environmental benefits associated with this technology?

Whilst EDF Energy accepts that there will be an environmental benefit from generating electricity from the pressure reduction, this is dependent on NGD not requesting/requiring NGG to deliver higher pressures. Intuitively higher pressures would require more gas compression on the NTS which would have a detrimental impact on CO_2 emissions. In addition it is not clear whether there will be any environmental benefits from using the biomass to heat the gas as opposed to using own use gas. The benefits of this will be dependent on the biomass used and where it is sourced from.

Are there any potential benefits, costs or risks to consumers that have not been considered in this letter?

Requiring NGG to deliver higher pressures to support this technology may result in an increase cost to Shippers and consumers.

Are there any other licence conditions that could be affected by NGG's proposal?

Standard Special Condition 5 places a requirement on NGG to ensure that charges are cost reflective. It is questionable whether it is cost reflective to deliver a service to a GDN which now has a commercial value, but not charge for it.

Should this kind of arrangement be ruled out as it has the potential to dilute the incentive on NG to operate either the transmission or distribution networks efficiently?

The relationship between NGG and NGD will need to be closely scrutinised to ensure that preferential pressure treatment does not occur. However the Licence Conditions not to discriminate may provide sufficient protection against this.

Should NGG be looking at the opportunities to reduce pressures on the National Transmission System to prevent the need for excessive pressure reduction at these sites?

Ofgem should be ensuring through the TPCR and SO incentive systems that NGG is sufficiently incentivised to ensure that they are operating an economic and efficient system. We would note that NGG has recently proposed a modification proposal on system pressures on the grounds that it would be more efficient, however withdrew this on the grounds that it was not sufficiently developed.

Are there any other issues Ofgem should be considering in reviewing NGG's proposal?

We believe Ofgem should be considering what the total carbon impact this proposal will have; how the fossil fuel compression of the gas should be accounted for; and what checks can be implemented to ensure that NGD does not artificially increase in pressure booking requirements.

Should Ofgem be considering the proposal to reduce own use gas for pre-heat using biomass generators separately from the proposal to convert the energy lost in depressurisation into electricity using turbo-expanders?

Given that the biomass will be used for both heating the gas and generating electricity it would appear inconsistent to treat this as two separate proposals.

Are there any modifications to NGG's gas transportation licences that would be appropriate to safeguard consumers if the Authority grants the relevant consents?

Initial analysis would indicate that the requirements for non-discrimination and the efficient and economic operation of the pipeline system should be sufficient. However given the complexities associated with the modelling of the gas system their may be some value in requiring NGG to submit their model and system operation to an audit on a biannual basis.