Paul O'Donovan
Head of Gas Transmission Policy
Ofgem
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20 December 2010

Dear Paul

National Grid LNG Facilities Price Control – Initial Proposals

EDF Energy is one of the UK's largest energy companies. We provide 50% of the UK's low carbon generation. Our interests include nuclear, coal and gas-fired electricity generation, renewables, combined heat and power plants, and energy supply to end users. We have over 5 million electricity and gas customer accounts in the UK, including both residential and business users.

We welcome the opportunity to respond to Ofgem's initial proposals and in general support the proposed approach. We have provided detailed answers to the specific questions posed in the consultation as an appendix to this letter. Our high level comments are:

- We support Ofgem's proposals regarding the use of a price cap, applied to the proportions of the site used for a regulatory service, depreciated over the economic or design life. We believe that this will ensure that the appropriate party remains exposed to the costs that they are able to influence and control.
- As Ofgem has identified, National Grid has in the past benefitted from the commercial operation of these sites when revenues were greater than costs. Having benefitted from this upside then it is appropriate that National Grid's shareholders also be exposed to the downside, when these assets are retired from economic service.
- Allowing consumers to fund the decommissioning of these sites would represent a cross subsidy from consumers to National Grid's shareholders. This would not be consistent with Ofgem's primary duties.
- National Grid already has corporate commitments regarding sustainability and greenhouse gas emission reductions. We are therefore not convinced that National Grid requires further funding to decommission these sites sustainably when they are already committed to do this.
- We believe that the long term funding and treatment of these facilities should be resolved through the RIIO-T1 review, using the appropriate RIIO formula; although, we continue to believe that these assets should be treated separately to National Grid's transmission price control.

I hope you find these comments useful. If you wish to discuss this response further, please contact my colleague Stefan Leedham (**Stefan.leedham@edfenergy.com**, 020 3126 2312), or myself.

Yours sincerely

Rob Rome
Head of Transmission and Trading Arrangements
Corporate Policy and Regulation

Appendix 1

National Grid LNG Facilities Price Control – Initial Proposals

EDF Energy response to questions

CHAPTER: Two
Question1: Do you agree with our Initial Proposals on the scope, form and duration of the control?

We believe that the scope, form and duration of the initial proposals are appropriate. In particular they ensure that the correct balance is struck between risk and reward to ensure that National Grid LNG having historically benefitted from the upside associated with these facilities is now exposed to the downside risk. We believe that it is appropriate for National Grid LNG to be exposed to their internal decisions that they have taken, whether these are to close the facility early or to remove these facilities from offering a commercial service. This replicates the commercial regime where Shippers are also exposed to the costs of their decisions. Finally given that the work that is being undertaken through the RIIO mechanism for the Transmission Price Controls, we believe that these controls should last until 2013. This will allow full discussion and development through the RIIO mechanism.

CHAPTER: Three

Question1: Do you agree with our Proposals on the differing treatment of depreciation and return between historic and future capex?

These appear appropriate, although we note that the 6.25% cost of capital allowed as part of the last price control now appears generous. This should be consistent with the allowance in DPCR5 which represents the most recent review of cost of capital, compared to that which was set in 2007.

Question2: Is it appropriate that NGG and SGN should be more exposed to the capex costs associated with provision of regulated services at Glenmavis?

We believe that exposing National Grid LNG and SGN to capex costs would incentivise them to identify the most cost effective solution for maintaining supplies to the Scottish Independent Undertakings.

Question3: Do you think it is appropriate to include commercial revenue foregone in the consideration of price caps?

As noted previously Shippers are exposed to their commercial decisions, and the same principle should apply to National Grid LNG. We therefore support the inclusion of revenue foregone as arguably National Grid LNG could chose to open these facilities to providing a commercial service and so help fund some of the fixed costs associated with these facilities (assuming that the variable costs will also be covered).

EDF Energy
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