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1 April 2011

Dear Paul

Consultation Letter: Income Adjusting Event claim for the Canatxx incremental entry capacity signal at Fleetwood

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, renewables, coal and gas-fired electricity generation, combined heat and power, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including both residential and business users.

We welcome the opportunity to respond to this consultation and support Centrica's Income Adjusting Event (IAE) claim for the incremental entry capacity at Fleetwood that has been signalled by Canatxx. The key points of our response are:

- EDF Energy believes that an IAE has occurred as National Grid is currently benefitting from a significant increase in revenue without any associated obligations, costs or risks. These were not expected or foreseen when the price control arrangements and revenue drivers were set.
- We believe that all of the costs saved by National Grid is associated with the IAE, as although theoretically there is a risk of buy backs associated with this capacity, we believe that this is very low. We also consider that it may be appropriate to review National Grid's obligations for the Fleetwood entry point if the Authority allows this IAE.
- We believe that the IAE has decreased NG's system operation costs by more than £2m.
- NG's revenue should be reduced by £9.890m. We believe that this should cover any costs that were efficiently incurred.

As recognised in the consultation document, when the price control was finalised with the inclusion of revenue drivers for incremental capacity, it was expected that the UNC arrangements were sufficient to protect against the risk of incremental capacity and revenue drivers being triggered for a project that failed to be developed. With Canatxx it has become clear that these arrangements only work when a Shipper has interests in

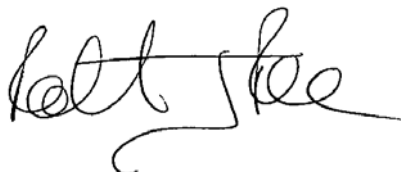
multiple entry points as otherwise there is no detriment to allowing capacity to lapse if a project is not delivered. This has identified a loophole in both the UNC and the price control that was not foreseeable, or considered at the time. It is exactly these events that IAEs are designed to cover and so it is appropriate that this is considered by Ofgem.

Without an IAE National Grid would be benefitting from an increase in System Operator revenue without a corresponding increase in obligations or costs. While we recognise that National Grid does theoretically have an obligation to provide capacity at the Fleetwood entry point at relatively short notice, we would note that the probability of this being utilised at this point in time is low. We believe that were Ofgem to allow this IAE then it may also be appropriate to review National Grid's obligations regarding the Fleetwood entry point and to consider whether these obligations are removed along with the revenue stream. We therefore believe that all of the costs referred to in Ofgem's notice have been saved as a result of the IAE.

Finally we note that in response to this IAE and consultation National Grid has provided Ofgem with a breakdown of the costs that it has incurred to date on this project; which Ofgem has published. Although these figures support National Grid's claim for £10m of costs having been incurred, we are unable to determine whether these are appropriate and efficiently incurred without a detailed breakdown of the work that was undertaken and the project timeline that National Grid was working to. Our initial view is that these costs appear high for a project that was in its infancy when it was cancelled and so it is unclear whether they were efficiently incurred. However, we would encourage Ofgem to review these more closely to reach a determination on this issue. At this stage therefore we concur with Centrica that National Grid's allowed revenue be decreased by £9.890m in 2010/11. If Ofgem was to determine that the costs National Grid is claiming for were efficiently incurred then National Grid's allowed revenue should be decreased by £8.890m for 2010/11.

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

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Rob Rome'.

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