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Dear Hannah

Open Letter Consultation: Setting new revenue drivers, updating existing revenue drivers and adding new exit points to the Gas Transporter Licence

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 this consultation and provide comments on the proposed changes to National Grid's Gas Transporter Licence. We note that this is a timely consultation given the recent consultation and imminent authority decision on the Income Adjusting Event (IAE) raised by Centrica with regard to the revenue drivers triggered for the Fleetwood entry point.

The key points of our response are:

- We support Ofgem's proposal to use a forecast Milford Haven flow of 300 GWh/day to model the reinforcement and revenue drivers for Baglan Bay and Pembroke Phase 2. We believe that this is a very conservative forecast and note that a flow rate of 350 GWh/day would not appear inappropriate.
- We support the inclusion of the five new exit points identified by Ofgem in National Grid's Licence. We note that these are required to allow Shippers to trigger incremental capacity at these exit points, if required, and to secure interruptible capacity.
- The treatment of the revenue drivers associated with Marchwood and Pembroke (Phase 1) should in part be driven by the Authority's decision with regard to the Fleetwood IAE.
- The current process of developing revenue drivers on an ad hoc basis is not desirable and can delay the delivery of projects that require these to be finalised in order to book capacity. We believe it would be beneficial were Ofgem to develop a generic methodology for developing revenue drivers to ensure this process is efficient.

We note that, as part of the connection process for gaining a connection to the NTS, it has been identified in the past that the process of adding an exit point to National

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Grid's Licence and developing the associated revenue driver can delay the delivery of a project. This is being driven by the fact that National Grid requires certainty on any revenue associated with this point in order to determine the most efficient way of delivering this capacity within the 36 month lead time for exit. While a bespoke approach has been acceptable in the past to accommodate a low volume of sporadic new exit points, the number of exit points and associated revenue drivers is increasing; and is likely to be maintained at this level in the near future. An enduring solution might be to develop a generic approach, so that revenue drivers can be included in National Grid's licence in a less resource intensive manner. One option might be to develop zonal revenue drivers which could be triggered if incremental exit capacity exceeded a predetermined level.

In their response to Ofgem's consultation on the Fleetwood IAE, National Grid notes that: "any set of incentive arrangements can only properly be viewed in the context of the price control package as a whole" and that: "The SO entry capacity investment scheme, when viewed across all relevant entry points, has led to National Grid both under- and over-performance against the incentives." They therefore believe that the IAE raised by Centrica should not be treated as an IAE as it would interfere with the price control package. This argument does not appear consistent with this consultation. NG is requesting a change to the price control package because their revenue is less than was expected, because the capacity signal at Marchwood was less than the trigger in the Licence. We therefore believe that the treatment of this issue should be driven primarily by the outcome of the IAE. If the IAE is rejected by NG on the basis that the price control is a package, then it would also appear that any Licence changes to increase revenues should also be ruled out on the grounds that it would interfere with the price control package. Conversely, if the IAE is allowed to cover unexpected events, then the same principle should also be applied to this issue.

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

Yours sincerely

Rob Rome
Head of Transmission and Trading Arrangements
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Appendix 1
Response to Consultation Questions

1. **Do you agree with our provisionally preferred approach to assume flows of 300 GWh/day at Milford Haven for the modelling to identify the reinforcement work needed to accommodate the incremental flows, i.e. Option 1d? Please provide reasons for your view.**
   This approach represents a conservative approach to flow modelling, and note that there is an argument that an assumed flow rate of 350 GWh/day would be appropriate. From the figures presented by Ofgem it is clear from the previous two winters that a minimum flow rate can be expected of 383 GWh/day with a 95% confidence interval. We note that at the Gas TCMF National Grid (NG) has used the flows in December 2010 as a proxy for peak demand flows and we see no reason why this is not suitable for Milford Haven flows. With Ofgem's analysis also indicating that summer flows of 327 GWh/day could be expected from Milford Haven with an 84% confidence interval we believe that a 300 GWh/day flow assumption represents a conservative view on flows through the Milford Haven LNG facility.

2. **Are there any other factors we should consider? Please provide these.**
   NG has placed a force majeure notification on the Milford Haven entry capacity as a result of failure to gain planning permission for an AGI. Planning permission for this AGI has now been granted and so the limitation will be lifted. We believe that this will provide further upside to Milford Haven flows which should be further taken into account when setting the revenue drivers.

3. **Do you agree with our provisionally preferred approach to revise the project descriptions in the Licence to reflect the amounts signed in the ARCA, i.e. Option 2b? Please provide reasons for your view.**
   At this stage, we are not convinced that Ofgem's provisionally preferred approach is appropriate. We believe that any decision to amend the Licence and release revenues should be consistent with Ofgem's approach and decision on the Fleetwood IAE decision. We note that NG's position on this request to increase revenues might not be consistent with their position on the IAE to decrease revenues.

4. **Are there any other factors we should consider? Please provide these.**
   We believe all the relevant factors have been considered.

5. **Do you agree with our provisionally preferred approach to add the five new exit points to the Licence? Please provide reasons for your view.**
   This seems an appropriate proposal which should allow these exit points to signal their requirements for incremental exit capacity if required.