James Thomson
Policy Manager
Gas transmission Policy
Ofgem
3rd Floor, Cornerstone
107 West Regent Street
Glasgow
G2 2BA

31 January 2012

Dear James

Determining Revenue drivers for South East exit Capacity

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. 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 five million electricity and gas customer accounts in the UK, including both residential and business users.

EDF Energy welcomes the opportunity to respond to this consultation. Our key points are as follows:

- We agree in principle with NGG's proposed approach of introducing a 'banded' revenue driver to meet generic CCGT incremental capacity demand in the South East.
- However, we are finding it difficult to identify the 5 CCGTs from NG's Seven Year Statement and it may be prudent to only include 4 CCGTs in the assumptions.
- We agree with NG's approach to introduce 2 separate revenue drivers for CCGTs and Storage, but, given current market conditions, it is unlikely that both these large storage facilities will come on line and in the same time frames. It might be more efficient to include only one of these projects, in the interests of producing more cost reflective incremental Exit Capacity charges.
- We also note that revenue drivers were set for Barking and Coryton, but incremental exit capacity has not yet been signalled. This needs to be taken into account in any calculation of new revenue drivers in the South East.
- We would support the use of incentives on NGG, to evaluate the potential for efficiency savings through contractual solutions to deliver incremental capacity, such as contracting with a network user not to take gas on peak days at a cost less than the value of the adjusted revenue driver.
- Adopting the unit cost assumptions used by NGG in its TPCR4 rollover business plan submission is appropriate for deriving the revenue driver values.

sustainability partner

EDF Energy
40 Grosvenor Place, Victoria
London SW1X 7EN
Tel +44 (0) 020 7752 2200

edfenergy.com

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Registered in England and Wales.
Registered No. 2366852.
Registered office: 40 Grosvenor Place, Victoria, London SW1X 7EN

- It is important to take into account the impact of reinforcement necessary to deliver the Fleetwood storage project in order to make sure reinforcement costs associated with these projects are not being double counted.
- Given the potential scale of this revenue driver there should be protection for customers in case the revenue is triggered but a project and associated investment by NGG is not delivered.
- We support NG's use of 400mcm/d rather than 350mcm/d as a demand forecast assumption for modelling storage site reinforcement requirements at peak times, but we believe NG should provide greater evidence for this assumption and for assuming that these new facilities will be fast cycling rather than seasonal.

We hope that you find these points useful. Should you wish to discuss any of the issues raised in our response or have any queries, please contact my colleague John Costa on 020 3126 2324, or myself.

I confirm that this letter may be published on Ofgem's website.

Yours sincerely,

Denis Linford
Corporate Policy and Regulation Director