Andy Burgess
Associate Partner, Transmission and Distribution Policy
Ofgem
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Dear Andy

Gas Transmission Charging Review – Call for Evidence

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, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

EDF Energy welcomes the opportunity to comment on Ofgem's Gas Transmission Charging Review (GTCR). We believe that Ofgem has correctly identified that the TO entry commodity charge and compliance with European network codes are key drivers for undertaking the review.

We do not believe that a wholesale fundamental review of GB's gas transmission charging arrangements is necessary, and only specific aspects of the arrangements may need revision, for instance to comply with European network code on tariff harmonisation. We believe that as a next step Ofgem needs to detail further what it considers to be the current incentives driven by the charging arrangements and why these may need to change. GB already has one of the most competitive and liquid wholesale markets in Europe, this should be taken into account when proposing any changes to GB charging arrangements.

Our detailed responses are set out in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact Natasha Ranatunga on 0203 126 2312, or myself.

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

Yours sincerely,

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Head of Transmission and Trading Arrangements

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Attachment

Gas Transmission Charging Review – Call for Evidence

EDF Energy's response to your questions

Understanding the issues

Q1: What has given rise to the current balance between charges for access to the transmission network? How might this change in future?

The GB gas market is considered to be mature; the majority of pipeline capacity has been paid for and investments in large entry points have plateaued. The surplus entry capacity in the NTS led shippers to purchase short-term capacity products rather than invest. This has led to lower recovery of entry capacity charges associated with auction signals and in order for NGG to recover its allowed revenue when revenue shortfall from entry capacity auctions is forecast; the entry commodity charge is applied. As a result the TO entry commodity charge has become increasingly unpredictable.

Ofgem has stated that entry commodity charges discourage the import of gas to GB and can encourage the export of gas to Europe. The removal of commodity charges at Interconnection Points (IPs) would be in line with the current proposals in the draft Framework Guidelines on tariff harmonisation and it could aid efficient trading between different markets.

The adoption of a European network code on tariff harmonisation will require changes to how charges are determined for access to the NTS, particularly if commodity charges will not be applied at IPs. This may also require a change to NGG's allowed revenue calculation if there are differences in charge calculations between the GB domestic market and from IPs.

Q2: What issues are there with current charging arrangements? For example:

- **Does the charging structure strike the right balance between incentives to use capacity efficiently and investment?**
- **Is capacity available when needed?**
- **Do charging arrangements help NGG to plan network investment?**
- **How do our current charging arrangements interact with those in neighbouring markets? What is the impact of these interactions?**

The GB capacity market is not constrained; NGG's regular reporting[1] illustrates this as it details how much capacity is available, at which existing entry or exit point and the period of availability. Shippers have plenty of opportunities to purchase capacity via the long-term capacity release mechanisms through to the shorter-term capacity release mechanisms.

[1] Exit Capacity reports: http://marketinformation.natgrid.co.uk/Gas/ExitCapacityReports.aspx and Entry Capacity reports: http://marketinformation.natgrid.co.uk/Gas/CapacityReports.aspx

EDF Energy believes that the provision of regular capacity release mechanisms with the variety of capacity products offered provides the opportunity for capacity to be made available when needed. Short-term firm and non-firm capacity is offered at a discount in order to promote the efficient use of the system. This should be retained as this approach ensures that capacity is efficiently allocated and it is not artificially priced. It also facilitates competition and the access to the network for smaller players.

Network investment for connecting new sources of LNG importation, storage facilities and gas fired power stations is entirely driven by customer signals. The current charges are determined via the NTS Transportation Model which in essence assesses the costs of transporting gas from each entry point to the 'reference node' and then onto each offtake point. As this method is meant to reflect the costs of transporting gas and provide an estimate to build additional capacity of a given length of pipe, this should provide NGG with the ability to undertake high-level network investment analysis based on this.

However, a significant amount of NGG's network investment is funded via its price control. The price control determines what revenues NGG is allowed to recover and therefore NGG's network investments are not necessarily driven by the GB charging arrangements alone but by how the NTS operates.

Q3: How do current arrangements give rise to these issues?

Please see responses to Q1 and Q2

Q4: In the event that there were to be minimal implementation of the Framework Guidelines/network codes as currently drafted, eg no subsequent changes at domestic points, what would be the impact?

If the European network code on tariff harmonisation was to be implemented at the IPs only with no changes to domestic points this would be consistent with the approach undertaken for the CAM and CMP network codes. Different charging arrangements across the GB network may be appropriate and it should not be assumed that it would inhibit competition and harm security of supply and affordability.

However, the consequences of operating a two regime approach would need to be carefully analysed to ensure that the two-tier regime is cost-reflective. There should be assurance provided that operating two regimes would not give rise to issues of discrimination between users. It may be appropriate to review this once the detail on the European network code on tariff harmonisation is agreed. EDF Energy supports flexibility when applying the rules in the GB market in the interest of protecting consumers from undue costs.

Establishing our priorities for the review

Q5: Are our goals for the review appropriate?

Ofgem has stated its objectives for the review:

- To ensure the right incentives are in place for all parties

  This objective is appropriate and we would welcome Ofgem's views on the current incentive arrangements.

- That GB transmission charges are compliant with emerging European network codes and Framework Guidelines

  It is obligatory for UK regulations to be compliant with European regulations.

- Undue distortions between Interconnection Points and GB domestic points are avoided in Ofgem's approach to GB transmission charges.

  Ofgem should aim to remove any undue distortions; however it may be appropriate to consider whether different treatment of IPs and GB domestic points are suitable.

Q6: How could charging arrangements better meet the objectives set out in NGG's special standard condition A5 which sets out the objectives for NGG's charging methodology?

The relevant charging methodology objectives seek to ensure that the costs incurred are cost reflective, facilitate effective competition, take into account developments to the transportation system and comply with any European regulations. Subject to planned EU network code development and interactions with the entry commodity charge, the charging arrangements meet the objectives set out in NGG's special standard condition A5.

Q7: Do the objectives set out in NGG's special standard condition A5 remain fit for purpose? If not, how should they be changed?

EDF Energy believes that the objectives set out in NGG's special standard condition A5 are generally fit for purpose at this moment in time but should be reviewed to ensure that they continue to be fit for purpose.

Q8: What other suggestions do you have for the objectives of our review?

EDF Energy would welcome clarification as to whether Ofgem will include in the next stage of its GTCR process a review as to whether the current assumptions that feed into the Transportation Model, which is used to determine prices for entry and exit capacity will still be relevant going forward.

Q9: What is your view on the timescale for our review?

Ofgem has not detailed its proposed timescale for the GTCR or implementation of the outcome of its review. While we recognise the difficulties of determining a fixed deadline at this point in the process we would welcome clarification on how long the GTCR will run for. There is an interaction with the European network codes process and it may be appropriate to align the review with the European work plans.

Furthermore, if changes are to be introduced it is essential that there is sufficient notice of implementation of about 12 months in order to ensure that shippers are able to make customers aware of the impact to them and their bills (if necessary).

Our options

Q10: Bearing in mind the issues and objectives you have identified, what options should be explored to address these?

Ofgem should focus on applying the European network code on tariff harmonisation at IPs only. If elements of the European network code are identified via an industry review as potentially bringing tangible benefits to GB market and its consumers then these could be adopted into the domestic market arrangements.

Q11: What are the pros and cons of your suggested option?

The European network code on tariff harmonisation is likely to be implemented no earlier than October 2017; any changes to the GB market charging arrangements prior to this date should not be undone by changes to European regulations.

It may mean that changes to the GB market may be delayed until implementation of the European network code on tariff harmonisation.

EDF Energy
September 2013