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Consultation on changes needed to implement new arrangements for incremental gas transmission capacity (PARCAs)

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 licence changes needed to implement PARCAs (Planning and Advanced Reservation of Capacity Agreement). This new process will allow users to reserve incremental Transmission entry and exit capacity through a bilateral process with National Grid Gas Transmission (NGGT) rather than through the current capacity application windows. We note that the design of this PARCA process has been going on for a while now and it is important that Shippers and developers planning to build new Transmission connected assets have clarity and certainty over these new arrangements.

We have laid out in the attachment our answers to Ofgem's questions in relation to the proposed licence changes however we would also like to note the following:

- The two UNC modifications which implement the PARCA arrangements are still with Ofgem for a decision which may impact on the methodology statements which have yet to be consulted on. It would be useful to consider these together with the licence changes as a package to ensure they all fit together.
- There is still a risk to PARCA signatories in that Ofgem can veto NGGT's application to release capacity either through substitution or new network investment, potentially up to 5 years after it has been reserved by NGGT. While Ofgem has provided assurances it is unlikely to veto NGGT's application, developers should not be at risk where due process has not been followed and there should be assurances that the reserved capacity can be relied upon. If Ofgem wants to use its veto then this should be as soon after Phase 1 as possible.
 - Also, it is not clear that a veto is needed in the case where NGGT agrees to satisfy the capacity request through substitution after phase 1.
 - Further, it is not clear what happens in the case of an Ofgem veto however we believe this should be made explicitly clear in the licence, capacity release methodologies and PARCA contract.

- Termination fees – Shippers have inserted conditions into the PARCA contract that prevent NGGT from collecting termination fees from a failed planning application where they have not used reasonable endeavours. However, developers may not seek legal recourse to prove this and therefore Ofgem may want to introduce extra assurances that costs, which could also be in excess of the Termination fee, are not passed onto consumers through allowed revenues.

We hope you find our comments useful. Should you wish to discuss any of the issues raised in our response or have any queries, please contact John Costa on 0777 1875857, or me.

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

Yours sincerely,

A handwritten signature in black ink, appearing to read "Mark Cox".

Mark Cox
Head of Transmission and Trading Arrangements

Attachment

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EDF Energy's response to your questions

Q1. Do you agree with the intended drafting of each new licence definition?

Yes. However, the 24 month lead time for NGGT to deliver the reserved capacity should be a maximum and should not restrict a delivery time of less than 24 months if this was achievable by both PARCA parties.

Q2. Do you agree with the proposals to adjust collected revenues to include PARCA termination amounts, but not in all circumstances?

Yes, it is right that NGGT is only allowed to recover costs it is entitled to under the PARCA contract and that consumers are protected from these costs. Similarly where NGGT has not fulfilled their obligations under the PARCA contract it is equally right that they should not be able to recover phase 2 costs and we welcome Ofgem's licence drafting to reflect this. However, the ability to prove NGGT has not used reasonable endeavours under the PARCA contract may require legal action, something which the developer may not wish to pursue. We understand that it is not Ofgem's role to get involved in bi-lateral contracts however we believe some form of review by Ofgem of whether termination fees are fairly recovered in these situations would be in the consumer's interest.

Also, one of the reasons for termination of the reservation of capacity is if it is vetoed by Ofgem which could be up to 5 – 6 years into the PARCA process. While Ofgem has assured developers this is unlikely to happen, this still presents a risk to developers. It would therefore be helpful if Ofgem were to qualify the exact situations where they could and would veto the allocation of capacity that had already been reserved in Phase 1. Ofgem has provided some examples in their consultation where they would need this right however it would be useful to understand other examples to provide further clarity and assurances to developers. For example another case where it might be acceptable to veto is where NGGT did not follow the capacity allocation methodology procedure correctly. In this situation developers, and consumers, would need assurances that the costs were not being incurred inefficiently and this would require a change to the PARCA contract to mitigate developer's commercial exposures.

However, it is less clear that Ofgem would need to veto substituted capacity as this is existing capacity. If Ofgem does need this power we see no reason why this can't be done straight after NGGT has reserved it in Phase 1 where necessary. If delivery dates change, as allowed by mutual agreement in the PARCA, and it has a material impact then we agree Ofgem can review whether it needs to be vetoed at the time, which could be several years after phase 1.

Also, it is not clear what happens if Ofgem does veto NGGT's reservation of capacity, either under the PARCA or the licence, and we would welcome clarity on what the next steps would be and whether developers would lose their reserved capacity and delivery dates.

Finally, Ofgem proposes that where the level of security is higher than costs incurred these will be deducted from TO Allowed Revenue and passed back to users through lower network charges rather than the developer. We agree that there needs to be an incentive on developers not to raise speculative applications however the contract may be terminated for a number of reasons outside the developers control and therefore consideration should be given to whether excess security should be returned to consumers as a windfall or to the developer in this situation. Also, applications for incremental capacity going forward are likely to be satisfied through substitution or NGGT taking the financial risk and therefore the costs of reserving that capacity are likely to be low. However, a solution could be that the excess security is only socialised where the developer has terminated the agreement.

Q3. Do you agree with the text which adds a new 'Part A' to Special Condition 5F?

Yes, we welcome the insertion of Special Condition 5F which will require NGGT to publish a notice towards the end of phase one to inform stakeholders that a PARCA has been requested, how much capacity, which NTS points are affected, and how NGGT will deliver it.

We also agree with removing references to Permits as these will be superseded by PARCAs.

Q4. Do you agree with the text which adds a new 'Part A' to Special Condition 5G?

Yes, see comments to Q3 above.

Q5. Do you agree with adding phase one as an excluded service?

Yes

Q6. Do you agree with the wording in Special Condition 11C?

Yes

Q7. Do you agree that the financial, lead time and stakeholder notification policy changes should be implemented to allow the introduction of PARCAs?



Yes, subject to the comments above. It would also be useful to understand the timescales for changes to the capacity methodology statements and UNC modification decision to be able to consider these all as a final PARCA package.

EDF Energy
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