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Dear Jemma

EDF Energy Response to Charging Discussion Document NTS GCD06: “Supply and Demand Balancing Rules in the Transportation Model”.

EDF Energy welcomes the opportunity to respond to this consultation, we support the work that NGG has undertaken to resolve some of the issues currently experienced with the Transportation Model.

As a general principle EDF Energy believes that the overarching objective of the charging methodology is to produce cost reflective charges that can be replicated by Shippers to produce their own internal forecast. This will help to promote competition and so facilitate the relevant conditions of NGG’s Licence. However one of the problems with the Transportation Model is that currently Shippers are experiencing significant year on year volatility in charges as a result of changes in the TBE data (see appendix 2). These swings are significant and are unforecastable by Shippers, creating a negative impact on Shippers. In addition it should be noted that the methodology is aiming to forecast flows and so costs. Whilst historically this may have been a reasonably straightforward issue, the UK is becoming increasingly reliant on price sensitive gas flows and so the ability to forecast these has reduced. It would therefore appear that the issue now revolves around creating forecasts that are reasonable to ensure cost reflectivity, whilst introducing stability/forecastability to Shippers to promote competition.

In relation to the Supply and Demand Balancing Options presented by NGG, we agree with NGG’s view that Option 1 is no longer appropriate. However we are not convinced that NGG’s analysis has demonstrated that Option 3 is more appropriate than any other Option or that Options Two, Four and Seven are inappropriate. In particular we would note that the presentation and analysis conducted by NGG demonstrates that there is a range in prices, and not what the impact of year on year changes would be. It would appear appropriate that there is a range in prices to reflect the different costs incurred on the system, however what is more important is the impact that these changes would have on year on year volatility. We therefore believe that further analysis is required on the implications for year on year charges before any option is proposed or relegated.

In relation to the Source of Supply Data Options presented by NGG, we also agree that it appears appropriate to continue with the Ten Year Statement (TYS) as the source of data for forecast beach flows. We would note that historically these flows have remained relatively

consistent and so reasonably straight forward to forecast. However we believe that further consideration should be given to the treatment of storage, interconnectors and LNG importation. We would note that at the March 2009 TCMF, NGG gave a presentation on how the TYS view of supply had changed over the years for certain entry points and sources of supply. We would note that in general the greatest uncertainty has been witnessed at entry points where flows are price sensitive, or where there have been issues regarding the delivery of storage projects. We believe that any forecast where NGG is trying to model price differentials and so flows is invariably likely to be incorrect and vary significantly year on year. We therefore believe that it may be appropriate to look into using physical capability for determining prices, as it is this capability that NGG's pipelines are designed to transport and which the methodology is attempting to recover costs for.

For Medium Range Storage (MRS) the issue here appears to be NGG's ability to forecast when these projects will be delivered that is driving instability and uncertainty in the charges. However we would question whether this is producing instability in the forecast charges or instability in actual charges year on year? We believe that Shippers are best placed to identify when storage projects are likely to be delivered as part of their general day to day business, and so are best placed to update NGG's forecasts with their own views. This should therefore remove any instability between forecast charges. However we believe further analysis is required to identify what impact this is having before a solution is identified.

I hope you find these comments useful, however please contact my colleague Stefan Leedham (Stefan.leedham@edfenergy.com, 0203 126 2312) if you wish to discuss this further.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Seb Eyre".

Dr. Sebastian Eyre
Energy Regulation, Energy Branch

Appendix 1 Response to Questions for Discussion

Supply & Demand Balancing Rules

Q1. Do respondents consider the preferred option, Rule Three, to be transparent and cost reflective?

The creation of a merit order for individual supply points, based on historic injection and withdrawal rates appears arbitrary. Therefore grouping supplies into categories and scaling back these categories would appear to be more cost reflective and reduce reliance on historical flow patterns which are likely to change over time. Therefore all of the options appear more cost reflective than Option 1. However it is not clear why LNG Importation and interconnectors have been classified in the same group as beach and Long Range Storage (LRS). LNG Importation and Interconnectors are likely to be price responsive and so there appears to be a case that these should be included in their own classification.

Q2. Do respondents consider any of the alternative options to be more transparent and cost reflective?

Options 3-7 appear to be equally cost reflective and transparent.

Q3. Do respondents consider an option differing from those proposed to be more transparent and cost reflective?

We would question whether there is value in either grouping LNG importation and Interconnectors with SRS storage, or classifying them separately as a price sensitive supply group. However it is not clear whether these should be placed above or below SRS in the supply stack?

Supply Availability

Q4: Do respondents consider averaging supply data from a number of Ten Year Statements to be an appropriate approach to dampening entry and exit price volatility?

Whilst using historic average supply data may reduce entry and exit price volatility, there is a risk that this will fail to take into account developments in the market and UK's supply pattern and so result in less cost reflective charges. In particular we would note that the UKCS has witnessed significant year on year declines, which may not be reflected in historical data. In addition new supply sources would not have historical data and so would not be included in the supply forecast. However for LNG importation and Interconnector flows which are price sensitive, there may be a value in using historical flows to inform the development of potential future flow patterns, however again there is a risk that this will fail to reflect new sources of supply. There may therefore be a benefit in looking to combine the most recent TYS forecast with witnessed historical flows to reduce the impact of any significant step changes.

Q5: For each of the four supply types; Beach, Interconnector, LNG Importation and Storage, which data source do respondents consider to be most appropriate to use for charge setting purposes?

- ***Obligated Entry Capacity***
- ***Physical Capability***
- ***Ten Year Statement***

It would appear appropriate to use TYS data for beach flows as these appear to be reasonably consistent and forecastable. For LNG Importation and Interconnector flows physical capability appears appropriate as it is the potential to supply at maximum rates that NGG has to deliver capacity for. For storage we believe that there is value in differentiating between different types of storage – namely LRS, MRS and SRS – to reflect their different characteristics and flow patterns. It would appear that TYS data may be appropriate for LRS flows and physical capability may be appropriate for MRS and SRS flows.

However we believe further analysis is required to identify what the issues are before a solution is implemented.

Q6: Do respondents consider alternative sources of supply data to be more appropriate?

There may be value in combining historical flows with TYS forecasts to reduce the impacts of step changes.

General

Q7: What further analysis would respondents like to be included with any future consultation?

We believe that further analysis is required of the supply and demand balancing options to identify what the impact would be on year on year prices. We also believe that further analysis is required to identify whether changes in TYS view of MRS is driving volatility in year on year prices or forecast prices.

Appendix 2
Percentage Change in TO Exit Capacity Charges for NTS Exit Points Year on Year

NTS Exit Point	% Change year on year	
	2006-2007	2007-2008
AM Paper	123.68%	29.41%
Baglan Bay PG	-72.61%	20.63%
Barking PG	-5.65%	10.26%
BASF Teesside	0.00%	0.00%
BP Grangemouth	0.00%	0.00%
BP Saltend HP	-90.00%	0.00%
Bridgewater Paper	8.26%	38.98%
Brigg PG	640.00%	-35.14%
Brimsgate PG	-4.48%	11.72%
Brunner Mond	134.21%	60.67%
Connahs Quay PS	4.59%	40.35%
Corby PS	86.00%	16.13%
Coryton PG	27.96%	10.92%
Cottam PG	640.00%	37.84%
Deeside PS	7.34%	39.32%
Didcot PS	3.51%	8.47%
Goole Glass	1200.00%	153.85%
Great Yarmouth	-93.33%	350.00%
Hays Chemicals	171.05%	46.60%
ICI Runcorn	19.82%	35.34%
Immingham PG	-80.00%	200.00%
Keadby PS	2200.00%	91.30%
KemiraInce CHP	17.12%	36.15%
Kings Lynn PS	75.86%	19.61%
Langage PG	16.33%	185.09%
Little Barford PS	77.42%	10.91%
Longannet	0.00%	0.00%
Medway PS	15.31%	10.62%
Peterborough PS	137.93%	15.94%
Peterhead PG	0.00%	0.00%
Phillips Seal Sands	0.00%	0.00%
Rocksavage PG	19.82%	35.34%
Rosecote PS	-96.00%	1700.00%
Rye House PS	0.00%	9.70%
Saltend	-90.00%	0.00%
Sappi Paper Mill	-42.22%	88.46%
Seabank PG	21.66%	17.80%
Sellafield PS	-96.00%	0.00%
Shotton Paper	14.68%	28.80%
Spalding PG	136.36%	25.00%

Stallingborough PS	-90.00%	1100.00%
Staythorpe	-41.38%	64.71%
Sutton Bridge PS	186.36%	15.87%
Teesside Hydrogen	0.00%	0.00%
Teesside PS	0.00%	500.00%
Terra Billingham	0.00%	500.00%
Terra Severnside	17.90%	26.18%
Thornton Curtis PG	-80.00%	200.00%
Zeneca	0.00%	0.00%

Percentage changes year on year derived from NGG's published NTS Exit Capacity Charges for gas years commencing 2006, 2007 and 2008.