

Andrew Fox
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA



29 August 2007

Dear Andrew

EDF Energy Response to Transfer and Trade Methodology Statement

EDF Energy welcomes the opportunity to respond to this consultation, and support implementation of this methodology to facilitate the transfer and trading of entry capacity between ASEPs for this winter only.

We are however concerned with the process and lead times that have led to the raising of this methodology statement. We are concerned that changing the entry capacity baselines in April 2007 with little foresight or consultation on these adjustments has created a significant regulatory risk to the industry. We believe that this action alone will push Users into procuring long term entry capacity in an attempt to mitigate the risk from the regulator that baselines will be significantly changed again at the next Transmission Price Control Review (TPCR). Whilst we recognise that further work is now being undertaken on these baselines this is creating further regulatory uncertainty for the industry and should have taken place in addition to the TPCR consultation process. These issues have been further exasperated by the delay in producing and enacting the licence conditions that will require the facilitation of a trade and transfer mechanism. This uncertainty has created a significant regulatory (and financial) risk for NGG and Shippers. This risk could have been mitigated by producing the licence conditions earlier and by engaging with the industry at an earlier stage. We therefore welcome the work that NGG has undertaken in an attempt to mitigate this risk and hope that an enduring solution for this issue can be developed along with the rest of the industry.

As a general principle we believe that this methodology will make additional capacity available at the ASEPs where it is required. This should help ensure that sterilised or capacity that is no longer required is released at the ASEPs where it is valued the most. This should help ensure that gas is not artificially constrained offshore and so help to improve the UK's security of supply position. We would further note that the movement towards zonal and nodal capabilities should also help to ensure no constraints occur on the system and so avoid any significant buy back exposure to both Shippers and NGG.

However we do not believe that this represents an enduring solution, and have significant concerns over the following areas:

- Use of zonal and nodal maximum capabilities. This represents a divergence from the previous methodology statement which released "spare" capacity up to the baselines at an ASEP to be traded at another. It would appear that this change will ensure that NGG

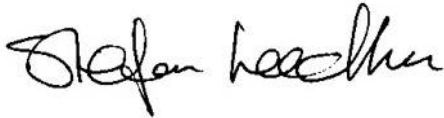
will not be exposed to any additional buy back risk, and potentially reduce their buy back risk, which appears to be in contradiction to Ofgem's open letter of 19 June 2007.

- The use of demand assumptions when determining the exchange rates. When determining the nodal maximum for an ASEP, the methodology appears to suggest that the minimum historical demand for the month in question will be utilised. However it is not clear how far back NGG will be looking to determine this. Further from previous discussions on this issue it appears that the nodal maximum for an ASEP will increase when demand increases. Using a minimum demand level would therefore appear to artificially constrain the amount of capacity that could be released and further minimise the buy back risk.
- Complexity. Compared to the previous transfer and trade methodology statement this is extremely complex. Whilst we welcome NGG's desire to improve the transparency surrounding this process we are concerned that this proposal is overly complex and a compromise should be reached between transparency and simplicity.

We therefore believe that whilst we have concerns with the operation of this methodology statement, given the time constraints it is important that this methodology is implemented for this winter. We would hope any enduring regime will answer these concerns and welcome the work that NGG has undertaken to start the process off for developing an enduring regime.

I hope you find these comments useful, however please contact me should you wish to discuss this further.

Yours sincerely

A handwritten signature in black ink that reads 'Stefan Leedham'.

Stefan Leedham
Gas Market Analyst
Energy Regulation, Energy Branch