

Graham Frankland
Stakeholder Engagement Manager - RIIO T1
National Grid

18 November 2011

Dear Graham,

National Grid Gas Transmission Stakeholder Engagement Consultation

EDF Energy is one of the UK's largest energy companies and provides 50% of the UK's low carbon generation. 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 5 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. The key points of our response are as follows:

- The RIIO approach to the price control and the transparency of information from transmission owners has been exceptional
- The uncertainty mechanisms proposed for the gas transmission business plan seem reasonable and represent good risk management practice
- At present we do not support a fundamental review of gas charging arrangements
- There would be value in producing more within-year information in respect of gas charging and some additional scenarios for future gas charges
- It is appropriate to use an uncertainty mechanism for the management of network flexibility requirements, which at present are not clear
- We support an approach to address capacity and connection issues which is industry led
- System operation mechanisms could be developed to minimise costs to consumers where these approaches can be demonstrated to be the optimal way forward

The level of transparency in the publication of National Grid's business plans is welcome; however, we consider that the exceptional level of detail in the plans can make it difficult to understand some of the key facts associated with the scope of work intended between 2013 and 2021. Although the higher level documents were accessible and well written the summaries contained insufficient tangible information; there would therefore be value were a summary produced with a balance of information which would sit between the primary summary documents and the full detailed plan.

The use of uncertainty mechanisms would appear to represent good business practice for the management of risk and the mechanisms which National Grid has put forward seem reasonable. As part of the regulation of transmission it is important that it is understood what level of risk can be accepted by the TOs as it is not always appropriate for risk to be borne by other industry parties and consumers in particular. The industry relies on the scrutiny of the Regulator in this respect.

Although stability in gas charging arrangements is valued we consider the predictability and transparency of information to be more important given the nature of current charging arrangements. We continue to support the use of a locational signal for charging and until Project TransmiT has delivered its conclusions then any review of gas charging principles would appear unwarranted.

Due to the nature of charging requiring the collection of a fixed annual revenue for the TO and SO then there may be value in producing more within year information in respect of the revenue amounts collected to date and a forecast of outturn revenue. This could be combined with some high, medium and low scenarios in the publication of tariff information and forecasts for gas charges.

It is widely recognised that the electricity market is undergoing a fundamental shift in operation as ageing plant nears the end of its economic life and the UK moves to a low carbon generation base to meet its targets. In addition changes brought about by Government legislation such as EMR and smart metering will also impact on how the electricity market operates. This in turn could have a significant impact on the operation of the gas market and system given the reliance on CCGTs for generation. However, at this stage it is not possible to identify exactly what impact these reforms will have on the operation of the gas system or the demand for flexibility. Therefore we do not believe that it is prudent for the business cases to include significant investment for flexibility; and instead this issue would be best addressed through an uncertainty mechanism. This could enable National Grid Gas' (NGG's) revenue to increase if the requirement for flexibility investment became more apparent and also ensure that customers were protected from inefficient investment by NGG.

We have welcomed the UNC proposal in respect of the connections and capacity processes and believe that modifications to arrangements should continue to be led by the industry.

It is important to ensure that there are appropriate incentives for both the TO and SO to maximise efficient use of the network. Longer term investment on networks may provide more stability and transparency to users in respect of costs. Within-year commercial arrangements for the efficient operation of the network could result in volatile and unpredictable charges. However, the primary focus of solutions should of course be of minimum costs overall. We would note that where unpredictable charging is the result of commercial options for network operation it should be recognised that anticipated efficiencies may not be achieved as users are not able to react to unpredictable commercial signals.

As discussed above the industry is facing a period of significant change which could have a significant impact on the operation of the gas transmission system. However, at this stage the exact impacts and implications of these reforms on gas system operation are unknown. It would therefore appear appropriate that NGG in its SO role is provided with sufficient tools and resources to be able to respond to a wide range of scenarios. The

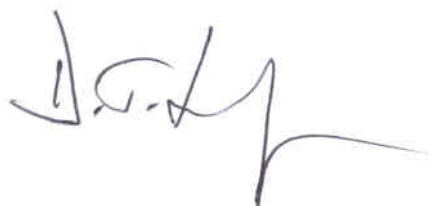
development of new commercial tools, replacement of IT systems and new operational processes could support this role. This could also ensure costs to consumers are minimised if this helps to avoid stranded assets and expensive capex investments by NGG in its TO role.

As regards stakeholder engagement we have welcomed the open and transparent way in which the business plans have been developed. However, the volume of events and consultations from transmission owners has at times been extensive. There may have been value in realising more consistencies across the transmission owners to some extent as a number of the issues on which views have been sought are common across all networks.

Finally, it has been difficult to link feedback from stakeholders to the NGG decisions which have been taken in developing the business plans. An additional report summarising stakeholder comments and the NGG response to those views might have been beneficial

I can confirm that our response is non-confidential. Should you wish to discuss any of the issues raised in our response or have any queries please contact my colleague Stefan Leedham on 0203 126 2312, or myself.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "D. Linford".

Denis Linford
Corporate Policy and Regulation Director