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Regulatory Frameworks
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20 November 2006

Dear Dominic

EDF Energy Response to NTS GCM03: "Introduction of an SO Commodity Charge for NTS Storage Facilities".

EDF Energy welcomes the opportunity to respond to this consultation; however we are unable to support implementation of this proposal at this time. We believe that implementation of this proposal at a time when the UK Government and Regulator are attempting to encourage the development of additional volumes of gas storage facilities in order to improve the UK's security of supply will give out a perverse signal and have a negative impact on the development of gas storage facilities. We note that National Grid Gas (NGG) has failed to address the concerns associated with double charging and the benefits provided to the system by storage sites, all of which were noted by Ofgem when deciding to not implement Network Code Modification Proposals 532, 545 and 547. We further note that NGG have not clearly identified that their proposal is cost reflective, or quantified how they have reached their final figures, despite requests at industry for a by market participants. In particular we believe that:

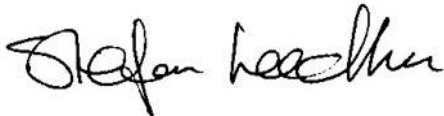
- It appears from the proposal that the main reasoning behind National Grid Gas's (NGG's) proposal is Ofgem's stated desire in rejecting modification proposals 532, 545 and 547 to see a more cost reflective charge applied to storage than the full SO Commodity Charge. However the regulatory and market environment since these proposal were rejected have changed significantly. We would therefore question whether Ofgem's stated objectives are still applicable, and how this proposal sits with the Government's stated desire to see the development of more storage facilities.
- Introduction of a SO Commodity Charge on storage flows would represent a cost to Storage Users, and so consumers that would impact on the economics of marginal storage projects. We believe that at a time when regulatory uncertainty and planning consents are acting as barriers to storage development, any change to the charging methodology that will impact on the economics of storage development should not be implemented.
- It appears from the proposal that these charges will be levied on the commercial flows into and out of storage and not the physical flows, implying a charge on storage use even though the net effect of nominations result in zero physical flow. We would therefore question how implementation of this proposal will reflect the costs storage facilities place on the system, when the charges are not being applied on physical flows. EDF Energy notes that a party's nomination that reduces a storage facility's physical

flows will reduce the costs imposed on the system, and yet will encounter a charge under this proposal. We do not believe that this is cost reflective.

- It has not been clearly demonstrated that these proposals reflect the benefits that storage facilities provide to the system by releasing gas on to the system when demand is high, and taking it off the system when demand is low. This issue is exacerbated by the fact that the charges will apply to commercial flows, rather than physical ones- we believe the charge should be levied on end of day physical flows.
- Whilst applying a reduced rate SO Commodity Charge to storage flows may reduce the element of double charging associated with the previous proposals on this topic, we do not believe that this issue has been fully addressed. Ultimately all gas entering and exiting the system will pay the full SO Commodity charge, and so any additional charge may be considered superfluous. Further as this charge would be applied to commercial rather than physical flows, there is a risk that it would be applied numerous times to the same volume of gas that had never left the storage facility. We therefore believe that this proposal discriminate against Storage Users and will not facilitate competition between gas Shippers and gas Suppliers.
- This proposal and Ofgem's indications on this topic clearly demonstrate that there is a lack of consistency in approaches to exit flows. On the one hand, Ofgem and NGG are arguing that Storage Facilities place different costs on they system than other Users and so should be treated differently, but argue in NTS Exit Reform that all exit points should be treated equally. Whilst we are not arguing that Storage sites should be treated like any other NTS Exit point we do agree with the distinction between different types of Exit points but question why this distinction does not apply to other Exit points such as DN and smaller industrial NTS supply points.

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

Yours sincerely

A handwritten signature in black ink, appearing to read "Stefan Leedham".

Stefan Leedham
Gas Market Analyst
Energy Market Strategy, Energy Branch.