



Jan Gascoigne
Regulatory Frameworks
National Grid
National Grid House
Gallows Hill
Warwick
CV34 6DA

23 March 2007

Dear Jan

EDF Energy response to NTS GCM04: "Introduction of NTS Exit (Flexibility) Capacity Charges under the enduring offtake arrangements."

EDF Energy welcomes the opportunity to respond to this consultation. For clarity EDF Energy remains opposed to the introduction of a flexibility product as proposed in modification proposals 0116V, 0116BV and 0116VD. While EDF Energy recognises the aim of this consultation, we are disappointed that it has been raised ahead of the final decision on the above modifications. Given the magnitude of the change that these proposals represent to the industry, and the imminent need to start the capacity booking process, EDF Energy would have hoped that a more timely decision on these modifications would have been reached.

We support the principle of charging for NTS Exit Flexibility Capacity at zero prices, however we have concerns at the impact that implementing this charging methodology may have and we are therefore unable to support this proposal.

EDF Energy is aware that the annual and daily flexibility auctions will not trigger investment to release additional volumes of flexibility, as it is a by-product of NTS Exit flat capacity. As National Grid Gas (NGG) will receive funding for the supply of flat capacity through Transportation Charges, it appears reasonable that NGG should not be funded for the supply of a product that has a zero cost. EDF Energy further supports NGG's proposal to allocate flexibility capacity on a national bid basis, subject to zonal and area maxima, to ensure that zones with few Users do not get lower prices than zones with many Users.

However EDF Energy is not convinced that the proposal meets all the requirements laid down in the EU Gas Regulations 1775/2005. In particular we are concerned that:

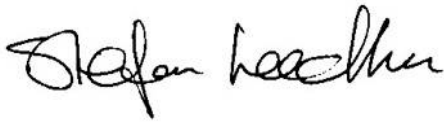
- **Facilitate efficient gas trade and competition.** It would appear that an auction process is in fact significantly more complex than the simple booking process that currently takes place. This could therefore be viewed as a barrier to entry and so reduce competition.
- **Provide incentives for investment and maintaining or creating interoperability for transmission networks.** As stated in this proposal, no investment will be undertaken to provide flexibility capacity. We therefore do not believe that an incentive will be provided for investment, especially as the flexibility capacity will be released with a zero reserve price. Further, as noted above, the introduction of auctions will add complexity to the current processes, which would have a negative impact on the interoperability for

other transmission networks, and act as a barrier to entry for Shippers trying to gain access to our network, or export gas from it.

- **Not distort trade across borders of different transmission systems.** The introduction of an auction process to replace a simple booking process will have a significant impact on trade across borders. In particular the misalignment of entry and exit capacity regimes could reduce, or prevent, gas from being traded across border points.

I hope you find these comments useful, however if you have any further questions please contact me.

Yours sincerely

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

Stefan Leedham
Gas Market Analyst
Energy Regulation, Energy Branch