

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



30 May 2007

Dear Andrew

**EDF Energy Response to consultation on “The Entry Capacity Transfer and Trade Methodology Statement.”**

EDF Energy welcomes the opportunity to respond to this consultation and provide comments on the issues raised.

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). 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.

In general we believe that this methodology statement represents an effective temporary solution to enable the transferring and trading of capacity for this winter. These mechanisms are an especially important issue that need to be implemented in order to alleviate the constraints that are expected at Teeside this winter due to the unexpected changes to baseline as part of the TPCR and the constraints expected at Easington. In order to minimise the impact of these constraints on Users and improve security of supply for the UK we believe that it is imperative that these mechanisms are enacted, and an important part of these mechanisms will be the methodology statement that sits behind them.

However we are concerned with NGG’s proposal that they will only enact trades and transfers that do not increase their buy back risk. As part of the Transmission Price Control Review (TPCR) NGG’s overall entry capacity baselines were reduced, suggesting that the buy back risk associated with these baselines had also been reduced. However within the TPCR NGG’s pre-tax cost of capital was not also reduced to reflect this. It is our understanding that the industry expected this methodology to address this, and so ensure that NGG’s overall exposure to buy back risk would be maintained across price controls. We would therefore

expect this issue to be addressed in any enduring solution and potentially rectified within this statement, subject to clarification from Ofgem. However due to the requirement to have this methodology in place for this winter, we do not believe that this issue should prevent the acceptance of this statement by Ofgem provided its impact was limited to this winter.

Going forward we would also hope that this methodology could be developed so that trades of sold capacity within a zone could be facilitated on a 1 to 1 basis prior to enacting the trading of sold capacity across zones. EDF Energy is aware that this is a concept that has been raised by NGG historically in modification proposal 118 and also by EON in modification proposal 151A. We believe that this could represent a simple and efficient process for facilitating entry capacity trades and would encourage NGG to develop this further as an enduring solution.

Under modification proposal 150, which this methodology is designed to support, Users will only have foresight of the maximum amount of capacity that may be available at an ASEP and an indicative exchange rate. Participants will therefore be cross bidding for capacity at the ASEP, in the knowledge that they are also competing with other participants both at that ASEP and potentially other ASEPs in an open market process. NGG will then process the bids from this auction in price order, with the outcome being those that value the capacity most will gain access to it, in line with the valuation process.

This is a basic economic principle that should underline any open market process. The value of this capacity will only be realised where it is utilised, and where it has come from is not important. We therefore do not believe that an artificial, and potentially arbitrary, limit should be placed on the exchange rates that may be enacted through the mechanism that facilitates the transfer of unsold capacity.

Placing a cap on these exchange rates would start to unwind this important principle. In the event that an exchange cap was hit, it is likely that capacity would not be directed to where it was valued most, but to where the more favourable exchange rate occurred. Further if this cap was set too low, a potential outcome could be that some unsold capacity was not transferred at all resulting in sterilised capacity, which is inconsistent with the principles of this proposal. Finally it is not clear how these exchange caps would be formulated, and it could be suggested that given that NGG has been unable to derive a potential cap, any figure would be arbitrary.

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

Yours sincerely

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

Stefan Leedham  
Gas Market Analyst  
Energy Regulation, Energy Branch