



John Perkins  
NG Gas Transmission  
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2<sup>nd</sup> October 2009

Dear John

**EDF Energy Response to National Grid Gas (NTS) SO Operating Margins Incentives for 1 April 2010**

EDF Energy welcomes the opportunity to respond to National Grid Gas' consultation on the progress in developing the procurement of Operating Margins (OM) and associated incentives. We have provided some general comments in this covering letter on areas of the consultation where we have specific concerns and more detailed views to NGG's questions in the attached appendix. As a general point we believe this new format of consulting with the industry by NGG with Ofgem providing initial guidance and final views after a further industry consultation is working well and should be continued.

We believe there is a market for Operating Margins contestability and support NGG's efforts for trying to create a market and competition for these services. It is encouraging to note there was take-up by new providers and types, however from NGG's analysis we have concerns whether or not it will be operationally available on the day or in certain zones such as the South, to satisfy the safety case. It is also not clear whether it will be at the right economic level giving the extra administrative and transactional costs associated with the 'availability' and 'utilisation' fees. Creating a contestable market for these OM Services may be beneficial in terms of creating competition and price transparency however it is not clear whether this will create extra transaction costs that will ultimately be of more benefit to consumers in the long-run. It would be beneficial if some comparative information and data on the new and old regimes could be provided to clearly ascertain any tangible benefits. The cost of NGG's incentives should also factor into this analysis.

We also recognise that the UNC has recently been modified to change the OM contract year so that it was no longer aligned with the gas year. In the case where some of these OM services will be tendered over a two year period it is not clear how NGG will pass these costs back to consumers; i.e - whether it would be the year the contract and costs started escalating or the year in which the option was exercised? More explanation on this point would be appreciated.

I hope you find these comments useful, however please contact my colleague John Costa ([john.costa@edfenergy.com](mailto:john.costa@edfenergy.com) , 0203 126 2324) if you wish to discuss this response further.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'John Costa'.

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Dr. Sebastian Eyre  
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Cc. Ofgem

Question 3.1	<i>Are there any other activities that National Grid could reasonably do to promote a contestable market and to make a successful safety case demonstration?</i>
	We believe NGG is taking the right steps to promote a contestable market for OM by consulting with the industry through holding workshops, open consultations and bilateral meetings. In terms of satisfying HSE safety case it is not clear how NGG will demonstrate its success other than showing the level of contracts accepted in response to the level of OM required. More visibility and greater clarification of this process would be helpful.
Question 3.2	<i>What additional information would be useful if provided within National Grid's Invitation to Tender (ITT) documentation or Tender Information Report?</i>
	We believe the information provided is sufficient.
Question 4.1	<i>Has National Grid sufficiently articulated the requirement and potential market for OM services?</i>
	Yes and the graphical requirements and representation has been helpful in depicting the level of zonal requirements.
Question 4.2	<i>Do you believe the new provider types, if approved through the HSE Demonstration case, could form a significant component of future providers of OM: NTS Industrial, NTS Power Station &amp; Supply Side (Excluding LNG Importation Facilities with Storage)?</i>
	Yes, these are all provider types that could offer contestable OM services if the contracts are structured correctly and plant is fully operational on the day
Question 4.3	<i>Have you any comments in relation to the potential interaction between demand side provision of OM services and the electricity market?</i>
	We do not believe there should be much impact on the electricity market given that OM is only needed for a few hours to alleviate a transportation or gas supply constraint. However, this may not be the case locally where a withdrawal of a CCGT may have more of an impact where there are potentially tight electricity supplies.
Question 5.1	<i>Does National Grid's proposed 2010 OM tender timescale affect, either positively or negatively, the ability for providers to participate?</i>
	We do not believe there are any compromising issues with the tender timescales however assert that the HSE safety case is signed off before then to provide comfort and clarity for potential bidders.
Question 5.2	<i>Is there any additional information which could be provided by prior to the tender which would help potential providers in clarifying their position on whether to participate?</i>
	See answer above.
Question 6.1	<i>Is it appropriate to incentivise Operating Margins given the range of uncertainties? If so, what would be the most appropriate way (e.g. Cost minimisation) to incentivise Operating Margins?</i>

	We believe it is appropriate to incentives OM despite the range of uncertainties and through cost minimisation. However, it must be 100% proven through the safety case that there is no detrimental impact on level of service response that could create a worse emergency.
Question 6.2	<i>Should the OM Incentive scheme continue to be separated into a 'Utilisation' and 'Availability' element?</i>
	Yes.
Question 6.3	<i>Should National Grid be able to recover a return on the gas held in storage for OM purposes?</i>
	Yes, so long as it can be proven that NGG is not inappropriately incentivised to affect the market through its natural monopolistic position.
Question 6.4	<i>What would be an appropriate length of an incentive?</i>
	One year incentive and review on a yearly basis.