Pricing Managers
Gas Distribution Networks

19 February 2010

Dear Gas Distribution Networks

EDF Energy Response to Distribution Networks Pricing Consultation Paper DNPC06: "Proposals for LDZ Charges to Recover NTS Exit Capacity Costs".

EDF Energy welcomes the opportunity to respond to this consultation. We support implementation of the proposed methodology.

EDF Energy supports the development of cost reflective charges; however any charging methodology needs to strike the correct balance between cost reflective charges and complexity. In particular we would note that it may be possible to develop MPRN specific charges that are very cost reflective. However the complexities and costs associated with implementing such a precise methodology would outweigh the marginal economic efficiencies that may be gained from adopting such a complex regime. In addition any methodology needs to ensure that there is sufficient transparency and predictability for Shippers to be able to forecast any future changes in charges. EDF Energy believes that the proposed methodology meets these objectives.

In relation to the specific questions raised in the consultation EDF Energy would make the following comments:

1. **Should LDZ NEC Charges be based on a flat rate pence per peak day kWh per day rate in the same way as the NTS Exit Capacity charges are now?**
EDF Energy supports the proposal to maintain the current arrangements as we are not aware of a compelling argument for change. We would note that under the current arrangements NTS Exit capacity is booked as an annual product and so charges are relatively fixed, lending themselves to a capacity based charge. However going forward the GDNs will have the ability to profile their capacity bookings if required. This suggests that a commodity charge or a combination of a capacity and commodity charge may be more appropriate. This will depend on the strategy adopted by GDNs in booking NTS Exit Capacity and so it would appear that this area should be reviewed in future years once this becomes clearer.

We would however note that the NEC charge is already utilised in xoserve's billing systems. EDF Energy would therefore suggest that an alternative billing code is utilised, such as ECN. From a Shipper perspective this will require quite significant system changes to ensure that this is supported within our billing and settlements systems. We would therefore encourage the GDNs to progress this methodology and associated UNC change to ensure that Shippers have sufficient time to update their systems. Given that this proposal is not required for

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implementation until 1 April 2012 we believe that the current timetable is sufficient to manage this risk, however any significant slippage could have a detrimental impact and so should be guarded against.

2. **Should LDZ NEC Charges be applied by Network or by Exit Zone as discussed in section 4?**
   As previously noted EDF Energy believes charges should be applied either by Exit Zone or by Network. Of the options presented we would make the following observations:

   By Exit Zone
   EDF Energy supports implementation of this option. We believe that this should produce predictable charges and represent the least change solution for Shippers and consumers. We would also note that as this replicates the current arrangements it has a neutral impact on cost reflectivity. However given the issues identified by the GDNs given the issues of mapping to exit zones and the potential impact of gas supply to the GDN systems this is not our preferred solution. From a Shipper perspective one of the key issues is predictability and stability around GDN charges. The risk from this proposal is that exit zones will change annually, and so the costs incurred by consumers could vary depending on what exit zone they would be in. This risk would have to be built into our tariffs and so represent a cost to consumers. However given that this risk exists within the current methodology implementation of this proposal would not represent an increase in risk or costs, although this could change depending on the frequency and level of changes.

   By Network
   EDF Energy supports implementation of this option as our preferred solution. From a Shipper perspective the changes to our IT Systems to support this are limited. Currently our systems have to accept charges by GDN for Distribution charges and so implementation of this proposal would be an extension of these arrangements. We believe that this proposal will also produce predictable and transparent charges. This would reduce the risk when setting tariffs and so represent a reduction in cost for consumers.

3. **Should the misalignment of NTS and DN dates for changing charges be addressed by the DNs seeking to change the LDZ NEC Charges in October or should no change be sought until the industry has some experience of the operation of the new regime?**
   Whilst the decision on the specific form of NTS Exit reform was not reached until late 2008, we would note that the principle of charging GDNs for NTS Exit capacity was a common theme to all the UNC modification proposals. This was therefore a known element during the development of the GDPCR arrangements and during the Licence Condition change when the April charge setting date was enacted. EDF Energy therefore sees no reason for special arrangements to be applied for the LDZ Exit Capacity charges, and would note that arguably the GDNs have already been funded for this risk through the GDPCR process.

   However we would note that implementation issues of this proposal will need to be resolved. We understand from discussions with the GDNs that the proposal is to set indicative and final charges for the LDZ NTS Exit Capacity charges in April 2012, for application with effect from 1 October 2012. We believe that this is an appropriate solution to ensure that Shippers do not have to pay two sets of NTS Exit capacity charges, and to ensure that GDNs do not have to fund the NTS Exit Capacity charges until 1 April 2013. We therefore believe that this should be included in the proposed methodology to provide transparency and certainty to Shippers regarding implementation of this methodology in 2012.

4. **Should the DNs seek to introduce management of a separate "K" NEC relating to LDZ NEC charges, for the purpose of setting the level of these charges?**
As previously noted EDF Energy supports cost reflective charges, and a separate management of K will help to ensure that costs are targeted at the correct market sectors. However we also believe that this K should also be used to recover the Capacity Outputs Incentive revenue. In particular we would note that the Capacity Outputs Incentive is designed to encourage the economic and efficient booking of NTS Exit Capacity through setting a volumetric target for capacity bookings with a 50/50 sharing factor between GDNs and Shippers. Given that the methodology is designed to recover the costs of booking NTS Exit Capacity it would also appear appropriate to use K to recover the incentives associated with this.

I hope you find these comments useful, however please contact my colleague Stefan Leedham (Stefan.leedham@edfenergy.com, 020 3126 2312) if you wish to discuss this response further.

Yours sincerely

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