



## **NG Consultation on “The Exit Capacity Substitution Methodology Statement” AEP<sup>1</sup> Comments**

The Association welcomes the opportunity to comment on this consultation. We have been closely involved in the workshops supporting the development of the methodology and provided detailed comments to the informal consultation in the summer.

### Capacity Release date with Substitution

The Association considers that the release date should be Y+4 consistent with investment leadtimes. This was an underlying assumption through the development process and the idea of using substitution to provide capacity as early as M+7 only emerged after the informal consultation in September. The main principle supporting the case for exit substitution was avoiding investment, but investment would not be avoided if capacity were released from M+7.

### Treatment of interconnectors

The Association considers that on the basis of EU legislation current (Security of Supply Regulation) and proposed (Capacity Allocation Framework Guidelines and Congestion Management Arrangements) NG could make a case to treat the Moffatt Interconnector differently such that capacity is protected from substitution below a certain level, which could be defined as the Technical Capacity for gas to enter the Irish system. This could make implementing these pieces of legislation more straightforward. However given the current level of commitments at Moffatt this is unlikely to be a real issue in practice over the next few years, so NG could feel comfortable in this respect.

### Exchange Rate Collar

We welcome NG’s current proposal to not include a collar at this time. We consider that any collar would be inefficient in that if a 1:1 collar had been introduced baselines would have been reduced more than is necessary, and probably at more locations, in order to deliver the incremental capacity at the recipient exit point. This would have created ‘spare or unallocated’ capacity in the network about which there would be not transparency.

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<sup>1</sup>The Association of Electricity Producers (AEP) represents large, medium and small companies accounting for more than 95 per cent of the UK generating capacity, together with a number of businesses that provide equipment and services to the generating industry. Between them, the members embrace all of the generating technologies used commercially in the UK, from coal, gas and nuclear power, to a wide range of renewable energies.

### Partial Substitution

The Association appreciates this is a complex issue and that having a revenue driver agreed may assist in identifying economic vs. uneconomic substitution or investment. However we disagree that substitution should not occur nor capacity be released at all if a revenue driver has not been agreed in advance and included in the licence. See paragraphs: 61,65,66,70. The Association has raised this issue on a number of occasions including in response to IExCR consultations and remains concerned that applications for revenue drivers are at NG's discretion and beyond the influence of Users or developers. We are aware that Ofgem anticipates process improvements in this area, but would anticipate in the intervening period that capacity is released to Users and a default revenue driver established on a regional or incremental size basis to ensure capacity is allocated to Users and efficient decisions regarding investment or substitution are made.

### Capacity Available for Sale

We accept that there needs to be some clarity in this area but we have concerns that for ad-hoc applications submitted in October there could be a delay of up to four months before there is any clarity on available capacity to meet the ARCA request. We would seek assurance that the timescales for providing offers as detailed in the UNC will be met even during this period.

We also have concerns with paragraph 19(k). This says that the financial commitment must relate to works to provide incremental capacity or a new connection. Whereas, a User Commitment can be made in respect of reserving capacity, even where no works are required. This seems to suggest that any such capacity could be substituted away?

### Other points

Para 27 – not clear why any residual investment would be in respect of a **greater** number of smaller NTS points?

Para 47 and more generally. There does not seem to be a step in the Substitution Analysis that invites Users to submit notices of reduction even though UNC B 3.2.21 clearly expects the Exit Capacity Substitution Methodology to do this?

Revision of NTS baseline flat Capacity – We note NG has not made any changes to this part of the document yet we would like to record that our comments to the informal consultation in respect of this remain unchanged. We continue to be concerned over transparency regarding spare or unallocated capacity and how this complies with EU legislation to publish technical capacity. We wait with interest publication of a methodology to determine the technical capacity by 3 March 2011.

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