

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

3 December 2010

Dear Andrew

### **The Exit Capacity Substitution Methodology Statement.**

EDF Energy is one of the UK's largest energy companies. We provide 50% of the UK's low carbon generation. Our interests include nuclear, coal and gas-fired electricity generation, renewables, combined heat and power plants, and energy supply to end users. We have over 5 million electricity and gas customer accounts in the UK, including both residential and business users.

We welcome the opportunity to respond to this consultation.

We continue to oppose the implementation of this regime. As recognised from NGG NTS' initial presentation on this issue to the workshops, implementation of this regime appears to have limited recognisable benefits for consumers. At the same time the downside risk to security of supply, operation of both the gas and electricity system and complexity are clearly present. Therefore, the optimal solution would be for a derogation to be provided to NGG NTS in relation to this Licence Condition.

However, recognising that a derogation has not yet been granted, we appreciate the work of NGG NTS in developing a transparent methodology that provides clarity to Shippers and interested parties as to how it might be implemented. We support NGG NTS' proposal to use spare system capacity before substituting notional exit capacity prior to utilising un-booked baseline capacity as this will represent the most efficient use of the available capacity on the NTS. However, we believe that further improvements to the methodology could be made. In particular we believe that:

- NGG NTS could further improve transparency by identifying where on the system spare capacity existed. This could replicate the proposal for exit capacity revision and so help to inform Shippers and developers of the most suitable connection points on the NTS.
- A cap of 1:1 should be placed on exit capacity substitution to ensure that capacity "destruction" does not occur and that the NTS remains fit for purpose.
- We support NGG NTS' proposal to remove the exchange rate collar so that capacity can be created through the substitution process.

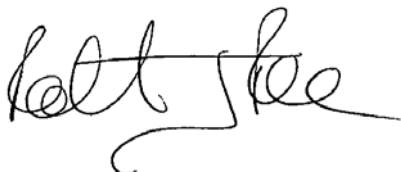
- Further analysis should be undertaken on the impact that this proposal will have on offtake capacity and the likelihood of interruption. In particular, we believe that NGG NTS should provide some analysis to support its assertion that the curtailment of offpeak capacity may increase.
- This methodology should apply to all enduring capacity applications including those made through the ad hoc and Advanced Reservation of Capacity Application processes. This will ensure the optimal development of the system and so limit the costs to consumers.

We also note that these proposals or consultations have not undertaken any appraisal on issues affecting security of supply. Both Ofgem, through Project Discovery, and the Government has recognised the importance of storage in meeting the UK's Security of Supply requirements. Additional consideration should be given to ensure that this proposal does not have a detrimental impact on the UK's security of supply position.

Limiting substitution to enduring exit capacity applications for Y+4 may provide certainty to Shippers who have not booked enduring capacity. However, this will not ensure the efficient and economic development of the pipeline system. In particular, as recognised in the consultation there are instances when NGG NTS can deliver incremental capacity that requires investment prior to Y+4. While these may not be that numerous, it would seem perverse that the methodology would not support substitution of existing capacity, over investment. In addition we note that on entry capacity National Grid can deliver incremental capacity within the traditional, common, 42 month lead time. We understand that this can also be met through substitution and so enabling substitution for ad hoc and ARCA applications would be more consistent with the entry regime, although recognising the two regimes are different.

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

Yours sincerely

A handwritten signature in black ink, appearing to read "Rob Rome".

Rob Rome  
Head of Transmission and Trading Arrangements  
Corporate Policy and Regulation