



Andrew Fox
UKT Commercial – floor B
Senior commercial Analyst
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

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Dear Andrew

Re: Consultation on “The Energy Capacity Substitution Methodology Statement”

EDF Energy welcomes the opportunity to comment on the above consultation. We offer some general comments on NGG’s substitution obligation and policy followed by more specific views on various areas of the Methodology statement.

Substitution policy and process

EDF Energy supports the idea of Substituting or transferring entry capacity where possible to improve and optimise the efficient use of NGG’s Transmission System. However, we have always maintained that it is Ofgem’s responsibility to ensure that NGG invests and maintain its network efficiently by allowing or disallowing the right level of investment. Substitution, whilst a potential solution, may end up creating more risks for shippers and consumers with capacity being eroded where needed. This comes at a time when declining gas supplies from the North Sea will be replaced with imports at many of the same terminals where capacity may seem in decline today but not tomorrow.

We recognise Ofgem’s concerns regarding Shippers not committing to long-term purchases of capacity however we continue to believe that Shippers make investments for the long-term and therefore require capacity on a long-term basis in order to efficiently use these facilities. We believe the risks for shippers will increase with substitution as it will not be clear for shippers what their future entry capacity requirements will be four years ahead as the proposals entail. The NTS has different types of shippers with different commercial requirements and it doesn’t necessary mean that unsold capacity is there to be substituted. Shippers may therefore be put off from retaining capacity, depending on cost, which could create inefficient signals for NGG who may incorrectly substitute away that capacity to satisfy an incremental signal elsewhere. This will neither be efficient or economic. We therefore question how successful this new regime will be and what level of uptake there will be especially if it is cheaper to buy the capacity rather than withhold it from market through the “retainer”. We believe the Transfer and Trades mechanism in the short-term capacity auctions works well ensuring that capacity is not squandered and that the NTS capacity is efficiently used.

In terms of process it is disappointing to note that two of the three options which Ofgem were going to consider as part of their Impact Assessment have been disregarded as viable mechanisms, especially after all the work that went into developing them and so late in the

process. However, at the same time we believe that Ofgem and NGG have been open and transparent in providing this early warning that the “Mechanism and Two-stage model” would not be viable options as this has and will save industry time in developing them further.

The Retainer

We welcome the fact that NGG has changed the name of product from “Option” to “Retainer” as it better reflects the product which is not really an option as it can be purchased by any User. However, we believe that a retainer longer than one year’s worth of capacity should be developed to decrease the risks on shippers who want to retain capacity for a longer term. It will also increase the likelihood of it being taken up.

In terms of refunds we welcome the fact that a refund will now be given to the User who took out the retainer regardless of whether he ends up buying the capacity in the QSEC or AMSE auction. This will make it a more desirable product increasing the potential of uptake. However we would expect refunds to be done immediately after the retained capacity has been signalled for purchase at a specific ASEP through either a QSEC or AMSEC auction for a portion or all of the retained quantity. We would also expect interest will be applied and refunded also given the fact that NGG’s methodology indicates that the period could be as long as 42 months from when the retainer was taken out.

Network Analysis for Capacity Substitution

We agree that NGG undertake network analysis to validate capacity substitutions in order to avoid incremental risk by proposing capacity substitution where this results in the capability of the NTS being reduced below that required. However we also believe that this network analysis should be shared with the industry as it would be beneficial for Users to have a view of capacity demands on the system. This will allow them to make efficient choices over whether to reserve capacity if there is a risk that it might be substituted elsewhere. We believe that NGG has the incentive and the information and therefore little risk in getting their actions wrong when it comes to investing efficiently. Publication of this information will also help Users understand and validate how the exchange rates have been calculated.

We hope you find our comments useful and look forward to reviewing Ofgem’s Impact Assessment on the economic merits of this proposal. However should you wish to discuss our response in more detail please contact my colleague John Costa on 020 3126 2324.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Seb Eyre".

Dr. Sebastian Eyre
Energy Regulation, Energy Branch