



**Consultation on NTS Exit Capacity Release Methodology Statement
(ExCR) in respect of the Transitional and Enduring Periods
Comments from AEP¹**

The Association welcomes the opportunity to comment on the revised ExCR. We note that NG has addressed some of the issues identified in the informal consultation process. We provide the following comments.

Covering letter

We welcome NG's proposal to address some of the issues that arise through the initialisation of the enduring arrangements where incremental capacity has been released above the enduring baseline. Under current rules this would be scaled back to baseline in the initial values provided in May and Users would have to signal for incremental capacity from Oct 2012 and make the associated user commitment from that date, even though they will have already been paying capacity charges on that incremental amount for a number of years. We consider this to be an unforeseen consequence of the new arrangements. NG's proposal has merits but we are unsure as to why the 1 Oct 2008 cutoff date was chosen. It would be more logical to align this date with the date the new ExCR becomes effective. We believe this to be a pragmatic way to address this issue.

However we also consider that there is a similar issue going forward in that NG may release incremental capacity above the enduring baseline where no investment is required, but that this may not lead to enduring rights unless an ARCA is agreed. The rules already allow for capacity provided via an ARCA to lead to enduring rights post Oct 2012. Under current rules any incremental capacity released in this way will be scaled back to baseline in the initial values provided in May and Users would have to signal for incremental capacity from Oct 2012 and make the associated user commitment from that date, even though they will have already been paying capacity charges on that incremental amount for a number of years. Furthermore if Users are unable to signal an incremental request in July 09 and do this in July 10 then enduring rights will not be available till Oct 2013, leaving a gap of a year where they have to rely on NG discretion to make available non-obligated

¹ 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.

incremental flat or to use permits for early release, and NG may then receive upside revenue for releasing capacity that it has done previously prior to the enduring regime.

We consider that a way forward in this would be to provide ARCAs for capacity increments even if they fall below the 20Mth threshold. The UNC drafting already provides for enduring rights to be established where an ARCA is in place. However in conjunction with this some revision of baselines may be necessary, else NG may end up being obliged to provide annual flat capacity and daily capacity beyond system capability.

We hope that NG will bring forward a practical solution to this issue to avoid parties being potentially disadvantaged by having to effectively commit to >4 years exit charges in order to secure enduring rights or risk there being a 'gap' in their capacity holdings merely as a result of the implementation of new arrangements and the relatively late identification of unforeseen scenarios and their consequences.

Transitional Arrangements

With regard to NG's wish to introduce a four year user commitment in the transition period we maintain our position that this is not appropriate, since this is a feature of the enduring arrangements and should not be implemented earlier. There have been a number of determinations that have set a precedent regarding the required user commitment; we believe this should persist until the enduring arrangements apply. Clearly given the timescales involved it is extremely unlikely that any ARCA agreed in the transition period that is not already under discussion will result in investment and delivery of capacity prior to Oct 2012. Therefore NG is seeking an increased user commitment for nothing more than a paper exercise.

We consider it is only possible for NG to bring forward this issue due to the governance arrangements of the ExCR. This principle was not discussed during the development of enduring exit reforms and has been introduced at the 11th hour.

An associated issue here is how the 20Mth threshold relates to the daily capacity increment, since it is the increment that will drive network analysis, planning scenarios and investment. We accept the threshold no longer applies in the enduring regime and consider it may be best just to remove this during the transition period.

Paragraphs 21 and 32 should be consistent with covering letter where describing ARCAs under negotiation before 23 February **or signed before 1 May.**

Enduring Arrangements

We welcome the introduction of the principle of early discharge of the user commitment, where the User Commitment Amount has been satisfied.

Revenue Drivers: We recognize there has been much discussion over NG's wish to have revenue drivers agreed prior to releasing incremental capacity, and for new points to be identified in the licence. We accept that NG needs to know that users or developers intend to bid at a particular point prior to the applications process and that an indicative price needs to be provided. Beyond this we do not agree that revenue drivers need to be established prior to the application process, we consider this effectively extends the lead time beyond that established in the licence and is out with the spirit and principles of the user commitment model established by 195AV. In addition it may be inefficient to calculate a number of revenue drivers for a range of increment sizes and better to calculate just one, once the increment has been signaled.

We expect NG and Ofgem to seek to streamline these processes to provide clarity to participants and to shorten the leadtimes involved. This is of a particular concern in respect of the ad hoc process which has been identified as requiring more work on some of the detailed elements.

Timing of offers: There are discrepancies between the Ad hoc process, which is detailed on mod 195AV and that for non-users in particular paragraph 46 and 59. Under the adhoc process NG must provide an offer within 90 calendar days where works are required and 15 business days where no work is required. Whereas for non-users NG will only use reasonable endeavours to make an offer within 90 calendar days whether works are required or not. We consider the arrangements for non-users should be aligned to those for users which are detailed in the UNC.

Demonstration information: we agree that this will need to be agreed on a case by case basis but consider that NG should seek feedback on the type of information that may be available prior to issuing a guidance note.

Capacity release lead times:

Paragraph 85, wording should be made consistent with licence.

As a longer term forward looking issue we think consideration should be given to simplifying the ExCR such that it avoids replicating significant chunks of the UNC, and provides a single governance process. We do however recognize that a simpler version will still be required to allow developers to reserve capacity and we accept that this may require a change to NGG's licence.

March 20, 2009