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National Grid
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6 August 2010

Dear Lesley

NGG NTS: Informal Consultation on Exit Capacity Substitution and Revision

EDF Energy welcomes the opportunity to respond to this consultation and commend the work and progress that NGG NTS has made in developing the methodology to support NTS Exit Capacity substitution and Revision.

For the avoidance of doubt, EDF Energy opposes the implementation of this regime. As recognised from the NGG NTS' initial workshop presentation the implementation of this regime has limited benefit for consumers. At the same time there appears to be a risk to security of supply and additional complexity in operation of both the gas and electricity system. The optimal solution might be for a derogation to be provided to NGG NTS in relation to this Licence Condition.

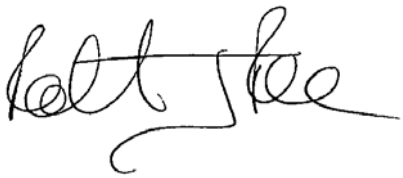
However, recognising that a derogation has not yet been granted we have provided detailed responses to the consultation questions in the attachment and our key points on the proposed methodology are as follows:

- If implemented it seems sensible that NGG NTS use spare system capacity before substituting notional exit capacity prior to utilising un-booked baseline capacity. This might represent the most efficient use of the available capacity on the NTS.
- NGG NTS could further improve transparency by identifying where on the system spare capacity exists. 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.
- NGG NTS should not place a collar on exit capacity substitution as this could result in additional investment when not required, or capacity "destruction".
- A cap of 1:1 should be placed on exit capacity substitution to ensure that capacity "destruction" does not occur and ensure that the NTS remains fit for purpose.
- 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.

Finally we would also note that these proposals or consultations have not assessed the potential effects on security of supply. We believe that additional work should be undertaken to ensure that this proposal, if approved, does not have a detrimental impact on the UK's security of supply position.

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



Rob Rome
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Corporate Policy and Regulation

Appendix 1

EDF Energy Response to Informal Consultation Questions

Section 2: The Exit Capacity Substitution and Revision Methodology

a) Are there any other factors that National Grid should consider in the analysis of exit capacity substitution and revision opportunities?

EDF Energy believes that NGG NTS should also include analysis on the potential impacts on security of supply of any exit substitution methodology. In particular we note that from our own analysis (published in support of UNC Modification Proposal 0195AV Impact Assessment) the majority of storage sites will have to rely on offpeak capacity as it is uneconomic to rely on firm capacity for these facilities. However, NGG NTS has identified in its consultation that "the potential for curtailment of off-peak capacity rights may increase"[1]. Given that storage assists the UK in meeting security of supply obligations, EDF Energy believes NGG NTS' analysis should consider how any exit capacity substitution methodology might impact storage facilities.

In order to inform future consultation responses it would be beneficial for NGG NTS to analyse the level of exit substitution which would increase offpeak curtailment in future network scenarios. Such analysis could initially focus on the storage "concentrations" around the Easington and Cheshire area. This would allow the industry to identify the likely impact on security of supply that this proposal may have.

b) Are there any aspects of the analysis that should be excluded or amended?

Further information is required on why NGG NTS will set flows close to the recipient donor at baseline levels when other flows on the network will be at sold levels. It is unclear why this differential treatment is appropriate.

Section 3.1: Substitutable Capacity

c)Is this definition of Substitutable Capacity appropriate? If not, why not?

The definition of substitutable capacity should be extended to include security of supply impacts. The definition could be changed to the following:

> "any unsold NTS baseline exit flat capacity at an NTS Exit Point that will not have a detrimental impact on UK security of supply".

We would note that this addition is aligned with Ofgem's primary objectives.

d) Bearing in mind other issues raised in this consultation document, are there any additional factors that should be included to limit the definition of Substitutable Capacity? If so, please justify such inclusion.

[1] Page 15 Paragraph 55.

Please see our response to the previous question.

Section 3.2.1 DN Flow Swapping

e) Do respondents agree that the risk presented by exit capacity substitution to DNOs' ability to flow swap is not significant? If not, please quantify.
EDF Energy has no comments to make on this question as we believe that the GDNs are best placed to answer these issues.

f) Are special arrangements that would exclude some/all DN offtakes from the scope of exit capacity substitution justified?
EDF Energy has no comments to make on this question as we believe that the GDNs are best placed to answer these issues.

g) How would the DN offtakes to be excluded from exit capacity substitution be identified?
EDF Energy has no comments to make on this question as we believe that the GDNs are best placed to answer these issues.

Section 3.2.2 Interruptible Sites

h) Is National Grid's assessment of the risk to off-peak / interruptible gas flows correct? If not, what have we failed to include and what are the implications?
As previously noted EDF Energy believes that further information and analysis is required by Shippers in order to answer this question. We believe that NGG NTS should provide information to Shippers focusing on the level of exit capacity substitution required to impact offpeak curtailment, and the scenarios in which offpeak curtailment would occur.

We note that if the likelihood of curtailment increased at times of peak demand, then this would appear to be aligned with the intent of offpeak capacity arrangements, which were designed to allow Shippers access to peak capacity that was not being used at times of low demand. However, we require further analysis to answer this issue fully.

i) Are special arrangement that would exclude NTS Exit Points using interruptible capacity from the scope of exit capacity substitution justified?
As previously noted, security of supply implications should be included in the methodology. This would benefit all consumers and is aligned with Ofgem's primary objectives. Security of supply should therefore not be viewed as special arrangements, but a pre-requisite of any change proposal.

Section 3.2.3: Interconnectors

j) National Grid would like respondents' views of the development of European Regulations, and specifically Article 16 of Regulation (EC) 715/2009. Is National Grid's interpretation of the Regulations correct? Is National Grid

correct in stating that existing processes comply with the Regulations as envisaged?
We are unconvinced that the NGG NTS definition of maximum capacity is equal to baseline which represents the minimum that NGG NTS is obliged to make available. However, this may be different to the maximum capacity as defined under the 3rd Package Article 18.3, which is more closely related to the Maximum Supply Point Offtake Rate (MSPOR). This issue should be resolved through a specific and separate consultation. NGG NTS would need to demonstrate compliance with these regulations to the satisfaction of the relevant authority.

k) Are special arrangements that would exclude interconnectors from the scope of exit capacity substitution justified? If yes, what is the justification and should this be a permanent or temporary feature?
The European requirements for capacity allocation and security of supply have still to be finalised. These requirements may or may not result in special arrangements which we will be able to comment on in due course.

Section 3.3: Partial Substitution

l) National Grid would welcome views on whether substitution should only be applied where the whole incremental quantity can be satisfied through substitution or whether partial substitution is preferred.
It would appear beneficial to allow partial substitution as this should help to ensure that investment costs are minimised.

m) Do you think that partial substitution is an added complexity that is disproportionate to the potential benefits?
Exit substitution in general is an added complexity that is disproportionate to the potential benefits identified. However, we would note that the complexities around partial substitution appear to be driven by having a revenue driver for all potential exit points and investment decisions prior to undertaking any analysis or decisions. Whilst EDF Energy recognises the importance of revenue drivers to ensure NGG NTS is funded for efficient investment, we would question why these have to be provided so early in the process. .

n) Would respondents accept a delay to capacity allocations and release (subject to a UNC modification) pending agreement of partial revenue drivers if banded revenue drivers are not available?
EDF Energy has not been presented with any arguments or evidence that would suggest a delay to capacity allocations and release is required or beneficial. The capacity release timeline was agreed by NGG NTS as part of the TPCR process. As noted on numerous occasions by NGG NTS the TPCR process was a "package" that NGG NTS accepted as a whole. Therefore were the TPCR package to be re-opened to address the issue of revenue drivers, we believe that this should also include entry revenue drivers and the issues associated with revenue drivers being triggered with no corresponding investment or obligations.

Section 3.4: Donor NTS Exit Point Selection

o) National Grid would welcome views on its proposals for selection of donor NTS Exit Points.
EDF Energy believes that this is appropriate.

p) Do respondents agree that selection on the basis of same pipeline first is appropriate?
EDF Energy believes that this is appropriate.

q) Do respondents agree that selection on the basis of downstream donor points first is appropriate?
EDF Energy believes that this is appropriate.

r) Should any other criteria be considered?
As previously noted EDF Energy believes that security of supply criteria should also be included. Please see our answer to Question (a) for more detail.

s) Bearing in mind their indicative nature, does the flow direction diagram add value to the methodology?
Yes.

Section 3.5: Process Timelines

t) Would you be in favour of a change to the Licence removing the Authority's right to veto substitution proposals put forward by National Grid?
EDF Energy does not support a change in the NGG NTS Licence to remove Ofgem's veto. Whilst we recognise the uncertainty this may present, we believe that this right to veto is important to ensure any substitution opportunities are consistent with Ofgem's primary objectives which include security of supply and protecting exiting and future customers.

u) Would you support a UNC modification proposal that seeks to remove or limit the additional application processes for DNOs following closure of the July application window?
EDF Energy has no comments to make on this question as we believe that the GDNs are best placed to answer these issues.

v) Are there any other alternatives that could be considered that would extend the available time for analysis of substitution opportunities?
EDF Energy is not in a position to identify any alternatives at this stage as we are not privy to the NGG NTS internal planning processes and arrangements. However, this issue appears to be one of resourcing, and so the alternative may be for NGG NTS to increase its resourcing in this area.

w) Do you support National Grid's proposal to not make available capacity, which may be subject to substitution away from an NTS Exit Point, from sale until the Authority's decision on substitution proposals is known?

EDF Energy does not support this proposal. Ad-hoc ARCA applications are only available for capacity requests above a certain threshold where there is insufficient baseline capacity available to meet these requests. NGG NTS will therefore need to invest or use system capacity to meet these requirements. It would appear inappropriate to delay these requests to wait for Ofgem's decision and an alternative solution may be to provide the customer with two options for capacity delivery. This would therefore ensure that Ofgem's right to veto was accounted for, whilst ensuring that the process was not artificially delayed.

x) What alternatives are available to manage the uncertainty of capacity availability for ad-hoc / ARCA applications during the Oct-Dec period?

Please see our answer to the above question.

y) Is it appropriate to cover such arrangements in the exit capacity substitution methodology statement or should it be specified in the ExCR methodology statement and/or UNC?

The ExCR methodology would appear most suitable as this will be the main reference for consumers wishing to connect to the NTS.

Section 3.6: Exchange Rate Cap

z) Should the exit capacity substitution methodology use an exchange rate cap to limit the impact of substitution on donor NTS Exit Points?

EDF Energy firmly believes that an exchange rate cap of 1:1 should be employed. As previously noted, and recognised by NGG NTS, the benefits of exit substitution are limited at best, whilst the consequences in terms of security of supply and ability to meet customer demands is significant. It would therefore seem appropriate to set an exchange rate cap of 1:1 to ensure that no capacity destruction occurs and that the current "size" of the NTS is maintained. We note from our experience in electricity it is in customers' interests to ensure that the system is an appropriate size to avoid excessive constraint costs. We believe that an exchange rate cap of 1:1 will facilitate this.

If an exchange rate cap is used:

aa) At what level should the exchange rate cap be set?

1:1

bb) Notwithstanding that National Grid is obliged to review the substitution methodology on an annual basis, should the exchange rate cap be set initially at a low level in the expectation of being revised / increased in future years?

EDF Energy believes the NGG NTS obligation to review the methodology annually is sufficient and no explicit assumptions on the future of the exchange rate cap should be made in the methodology.

Section 3.7: Exchange Rate Collar

cc) Should the exit capacity substitution methodology use an exchange rate collar to simplify the analysis of substitution proposals?

EDF Energy does not support the use of an exchange rate collar. We believe that in instances when one unit of capacity can be released at a donor exit point and more than one unit can be released at a recipient exit point then this would represent the efficient and economic operation of the pipeline system which is consistent with NGG NTS' Licence and the objectives of this reform.

If yes:

dd) Is a collar set at 1:1 appropriate? If not, what alternative level should the collar be set to?

If no:

ee) What alternatives / simplifications could be considered for reducing the amount of analysis required?

As previously noted a simple solution to this could be for NGG NTS to increase the resources it makes available to this work and so meet existing timelines and obligations.

Section 3.8: National Grid / Ofgem Discretion.

ff) Do you believe that National Grid should have discretion to deviate from the approved methodology where the methodology would result in clearly inappropriate substitution proposals?

EDF Energy believes that it may be appropriate to allow NGG NTS to deviate from the methodology to avoid clearly erroneous substitution proposals being submitted to the Authority. However, we believe that any discretion should be accompanied with clear rules regarding transparency and communication to the industry. In particular we believe any discretion should be accompanied by a requirement on NGG NTS to inform both the impacted parties and the industry of their proposed deviation, along with an explanation for this.

gg) Do you believe that discretion should lie with the Authority to reject inappropriate substitution proposals?

The Authority should be provided with reasonable discretion to ensure that its decisions on exit substitution are consistent with its duties.

hh) Do you agree that the Licence and Ofgem's statutory duties provide enough protection for the Authority to apply sufficient discretion to reject inappropriate substitutions?

Yes. However, it would appear inefficient for NGG NTS to undertake analysis and submit proposals for exit substitution that were clearly not aligned with these

objectives. We believe that discussions should take place at an early stage between the Authority and NGG NTS to address these circumstances. This should take place in a transparent manner to ensure that the industry is aware of these discussions and any potential implications.

ii) Do you agree that the methodology should allow discussions between Ofgem and National Grid to identify and eliminate inappropriate substitution proposals before they are submitted?
Please see our answer to the above question.

jj) Do you believe the Licence should be amended to make clearer the criteria by which the Authority will reject National Grid's substitution proposals? If so, what criteria should be included?
EDF Energy does not believe that this is required.

Section 3.9: Transitional Rules

kk) Do you believe that any transitional rules should be included for the initial exit capacity substitution methodology? If so, what areas should be covered?
We do not support the inclusion of transition rules. These are only required when the issues being identified and addressed may no longer be present. However, substitution is designed to be an enduring regime, and at this stage we have not been able to identify any issues that are transitory in nature.

Section 4: Key Issues with Exit Capacity Revision

ll) Do you agree that exit capacity revision should only apply to the release of funded incremental obligated entry capacity where investment has been made in new infrastructure?
Yes.

Section 4.1: Process Timelines

mm) Do you agree with National Grid's proposal that exit capacity revision should be applied only when reliable gas flow are established and/or can be confidently assumed?
Yes

nn) Is there an alternative that could allow revision to be applied earlier following entry capacity release in the QSEC auction?
No

Section 4.2: Recipient NTS Exit Point

oo) Do you agree with the proposal that notional exit points should be created as the only recipient exit point for exit capacity revision?
We support the use of notional exit points as this will provide transparency to the industry as to where there is spare capacity on the system. However, it would be

beneficial to undertake this exercise now for all spare capacity to help developers identify where spare capacity currently exists.

pp) If notional exit points are not used as suggested, how should recipient NTS Exit Points be selected?
EDF Energy supports the use of notional exit points.

qq) Irrespective of question oo, do you agree with the principle of creating a notional exit point for unallocated exit capability?
Yes.

rr) Would the use of notional exit points require a Licence change?
No.

EDF Energy
August 2010