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By e-mail: Lesley.ramsey@ukgrid.com

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Dear Lesley

IPR welcomes the opportunity to contribute to National Grid's consultation on its Exit Capacity Substitution Methodology Statement.

International Power plc (IPR) is a global independent power generation company with interests in over 32,000 MW of generation capacity in 21 countries. This includes approximately 5000 MW of plant in the UK market where, in partnership with Mitsui & Co., it owns and operates the coal fired station at Rugeley, Deeside Power CCGT, Saltend Cogeneration Plant in Hull, First Hydro Pumped Storage Stations at Dinorwig and Ffestiniog in North Wales, and Indian Queens peaking plant in Cornwall; the company also has a share in Derwent Cogeneration plant. These assets represent a 7% market share, making IPR one of the country's largest independent power producers.

IPR does not consider it appropriate to reduce the exit substitution lead time from Y+4 to M+7 for three reasons:

- this is a major change in the proposals being introduced late on in the process;
- exit substitution is being introduced to avoid investment, reducing the substitution timescale to 7 months would be inconsistent with the rationale for having exit substitution;
- an hoc applicants would receive preferential to the detriment of users relying on Annual or Daily Capacity.

Major Change

National Grid commenced work on developing the exit substitution proposals in December 2009 and has to submit its final methodology to Ofgem by 4 January 2011. Throughout the development process of the exit substitution arrangements, the underlying assumption has been that capacity would be substituted at Y+4 consistent with these investment lead times. We have had one informal consultation on the exit substitution methodology that did not contain any suggestion that substitution would occur other than in investment lead times. National Grid's proposal to reduce the timescale to M+7 has only emerged this September, after the consultation closed and two-thirds of the way through the development timetable. A major change such as this should not be introduced so late on in the process. We are surprised that National Grid is even considering such a change let alone consulting on it.

Furthermore, if this change were to be adopted, we are concerned that it will set a precedent to allow further substantial changes to be introduced late on in the development of other proposals.

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Inconsistency with investment lead times

National Grid requires a 3 year lead time to invest in the infrastructure. Investment cannot be made in timescales less than this. The rationale for capacity substitution is to avoid investment. If the lead time were changed to M+7, then it is not investment that is being avoided, it is merely convenience that is being provided. Whilst this convenience might be desirable for the connectee, it is not consistent with the rationale for introducing exit substitution.

Preferential treatment

Effecting substitution within investment lead times to support ad hoc applications would appear to make capacity available to ad hoc applicants on a first-come-first-served basis, to the detriment of users relying on Annual or Daily Capacity. In our view this is inconsistent with a fundamental principle of the regime – that the limited amounts of capacity available within investment lead times are made available to all users on an equal basis, with appropriate rationing mechanisms used as necessary (for example pro-rating for Annual Capacity or by auction for Daily Capacity).

I hope you have found these comments useful. If you have any questions regarding this response, please do not hesitate to contact me on 01244 504658.

Yours sincerely

Libby Glazebrook
Manager, Market Development