

Andrew Fox
National Grid
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA



15 June 2007

Dear Andrew

EDF Energy response to consultation on: “The Entry Capacity Substitution Methodology Statement”.

EDF Energy welcomes the opportunity to respond to this consultation and offer our support to the implementation of this methodology.

We are however concerned with the processes that have been followed in reaching this position. It would appear that the numerous revisions to entry capacity that are being witnessed at the moment are being driven by the sudden changes to baselines as part of the TPCR process and the implementation of the current entry regime several years ago. The unexpected decrease in baseline capacity at Theddlethorpe as part of the TPCR process threatens to render some of the new infrastructure at this ASEP stranded, whilst not ensuring that NGG responded to the investment signals at Easington in the first year of the current entry booking regime has ensured that investment is being delivered a year late with certain facilities finding that there is not sufficient capacity to meet their requirements. We believe that the dramatic decrease in sudden baselines could have been mitigated by ensuring a transparent process was followed with sufficient lead time for Users to mitigate against these actions. Further the short fall in capacity at Easington could have been mitigated by ensuring that the signals for capacity were acted upon when received and not the following year. However we would also question whether the plethora of activity currently seen on entry is the most appropriate way to resolve these issues.

EDF Energy believes that it is appropriate to allow the current entry capacity mechanisms sufficient time to operate before it is decided to change these arrangements with potentially unexpected consequences. It would appear that the full signals from the QSEC auction process are now only starting to be seen due to the lead times associated with these auctions, however the mechanisms are being altered without sufficient knowledge as to whether the current arrangements are working effectively or not. This creates significant regulatory risk to the industry, potentially compromising the UK's security of supply position. This risk is further worsened by the fact that the licence conditions required to support these arrangements have not even been finalised. In the future we believe that it would be appropriate to review the processes that have led the industry to its current position. We further believe that licence conditions should be drafted and implemented with sufficient lead time to ensure that they are in place before the consultations are issued to support these licence conditions, and these licence conditions should be sufficiently broad to allow the industry the scope to analyse the current arrangements and Ofgem's proposals and

decide what is the most appropriate arrangements to progress. These arrangements have already been witnessed in the electricity regime where the industry was allowed sufficient scope to respond to Ofgem's conditions placed on the acceptance of NGET charging methodology and decide what the most suitable course of action was.


We believe that the regime proposed by NGG should ensure that the incremental investment signals provided through the QSEC auction process are met using the most efficient and economic utilisation of the NTS. However we are concerned that the interaction between substitution and storage capacity contracts has not been fully recognised. We believe that these interactions should be recognised to ensure that the UK's security of supply is not compromised due to User's inability to provide signals within the correct timeframe.

In particular we are concerned that most storage capacity contracts at certain storage facilities have a duration of less than 3 years, whilst the QSEC auction process goes out to 17 years. It would therefore appear that storage Users at these facilities will not be able to provide a long term signal with regards to their capacity requirements. There is therefore a risk that as the long term signals have not been provided the capacity is substituted away, and some of the Rough storage asset could be sterilised as we are seeing this winter. This is of a particular concern given that this facility is likely to be called upon to meet the UK's peak demand. Failure therefore to recognise these interactions could therefore have a negative impact on the UK's security of supply. Whilst we recognise that these circumstances could be mitigated by the storage operator purchasing the required entry capacity to protect the value of their asset, we understand that in the case of Centrica Storage Limited this would require a change to their contracts with the associated hurdles.

With regards to the maximum exchange rates, it would appear that it is appropriate that a maximum exchange rate is identified and implemented to ensure that no inefficient substitutions are enacted. However without any indication as to what the potential range of exchange rates may be it is hard to quantify the maximum and so any figure will be arbitrary. It would therefore appear that a maximum of [75:1] could be appropriate to ensure that it does not create an artificial constraint on substitutions, but ensures that the most inefficient ones are excluded; however there is no statistical basis in the choice of this figure. We would therefore welcome an indication from NGG as to the potential range of exchange rates that may be witnessed in order to allow us to identify what an appropriate figure would be.

I hope you find these comments useful, however please contact me should you wish to discuss these further.

Yours sincerely

A handwritten signature in black ink that reads "Stefan Leedham".

Stefan Leedham
Gas Market Analyst
Energy Regulation, Energy Branch