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■ **Consultation on the Exit Capacity Release Methodology Statement (ExCR) to support implementation of the Enduring Gas Offtake Arrangements**

Dear Steve,

RWE npower and RWE Trading welcome the opportunity to comment on the above consultation.

Enduring offtake arrangements have been the subject of considerable industry debate, which has led to the raising of modification proposal 116 by National Grid NTS (NG) and four alternatives by shippers and a DNO. We intend to respond fully to these proposals in due course but at this point in time it is not clear exactly what form the enduring offtake arrangements will take. Whilst this draft ExCR aligns with modification proposal 116 it will need to be revised in the event any of the alternatives are approved.

The ExCR will also operate in the context of the forthcoming Transmission Price Control and in particular the incentive scheme within it, neither of which has yet been finalised.

Our comments regarding this ExCR are made with this in mind.

Release of NTS Exit (Flat) Capacity

In line with modification proposal 116 the ExCR proposes the release of incremental prevailing NTS Exit (Flat) Capacity subject to a four year user commitment and a 38 month default lead time, although the default lead is not specifically defined in the ExCR and we wonder where this will feature.

RWE Trading, in their alternative modification proposal 116B, have expressed concerns about the rigidity of this incremental investment booking process as it does not sit well with power station and other infrastructure investment project delivery. Modification proposal 166B seeks recognition of the fact that in the event NG are able to make available incremental capacity within a shorter lead time than the default period they should be under a reasonable endeavours obligation to do so. Similarly, if capacity can be made available from a start date other than the commencement of a gas year NG should be reasonably expected to do so.

This requirement will obviously need to be accounted for in the licence changes, NG's

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incentive scheme and the ExCR accompanying enduring offtake arrangements but we do not see this as being insurmountable.

The ExCR proposes a level of user commitment for incremental capacity equal to four years of exit capacity charges. Where there is an increase in the level of existing prevailing capacity such commitment is on the total future level of prevailing capacity, despite the fact that the existing prevailing capacity may have been funded many times over through previously paid charges.

It is not clear why NG believe that four years is appropriate when their current ExCR statement is written to seek full recovery of incremental capacity costs. Nor is it clear why one year is not thought to be an appropriate commitment bearing in mind previous Ofgem determinations on ARCA commitments for Marchwood and Langage power stations.

What is clear, and of most relevance to NG, is that once given a user commitment is seen as being sufficient to warrant efficiently incurred capex to be included in NG's regulatory asset base. Whilst we have sympathy with this position we don't believe this warrants a fourfold increase in the user commitment that Ofgem have deemed is sufficient in recent ARCA determinations as we do not believe that infrastructure projects connecting to NTS have become inherently more risky or that the instance of stranded assets have been rife over the last decade.

Of the two options considered regarding the capacity price any user commitment should be based on we favour option 1 where user commitment is based on the prevailing level of prices. This reflects our view that capacity prices in future should be set using a transportation model based on a single year network model (which we have commented on in more detail in our response to pricing discussion paper GCD01).

Release of NTS Exit (Flexibility) Capacity

The ExCR states the level of baseline flexibility capacity NG intend to make available under the enduring offtake arrangements along with the apportionment of that baseline across NTS Exit areas and zones and the allocation of individual NTS offtakes to zones.

It does not state what methodology NG used to arrive at these conclusions and in the event this is not intended to be included in the final ExCR we would expect this to be published in a supporting methodology statement. This will provide users with the necessary transparency over what has up to now been another one of NG's "black box" processes. Publication of this methodology statement is required prior to the commencement of the first flexibility auction.

We would expect such a methodology statement also to fully explain how flexibility baselines will be altered in line with incremental entry capacity investment (which we understand will be a feature of NG's licence). Bearing in mind the significant investment signals resulting from the latest long term capacity auctions we would also expect the initial flexibility baseline numbers to be re-appraised prior to the commencement of the first flexibility auction.

Should to wish to discuss any of the points above in more detail please do not hesitate to contact me.

Yours sincerely,

Steve Rose
Economic Regulation

Sent by e-mail and therefore not signed