

Jan Gascoigne  
Regulatory Frameworks  
National Grid  
National Grid House  
Gallows Hill  
Warwick CV34 6DA

Your ref NTS GCM 06  
Our ref  
Name Charles Ruffell  
Phone 01793 89 39 83  
Fax 01793 89 29 81  
E-Mail charles.ruffell@rwenpower.com

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**NTS GCM06: Further Revision to Obligated NTS Entry Capacity Reserve Price Determination - May 2007**

Dear Jan,

We welcome the opportunity to comment on the issues raised in this consultation document. This response reflects the views of RWE npower and the UK based business of RWE Trading GmbH.

In our response to NTS GCM01 we supported adopting an approach based on Option 2b, which specifically excluded spare capacity. This was mainly because we considered spare capacity to be transient and believed that its inclusion would introduce significant volatility and instability in reserve prices and that the reserve prices themselves would not reflect underlying long-run costs nor the actual assets being used. Furthermore, we supported using peak flows and obligated base line capacity as the model inputs as these reflect investment drivers, reduce the potential for under-recovery of allowed revenue and therefore the extent to which capacity charges are commoditised.

Our views have not changed and we are not persuaded by arguments for including spare capacity. As described the revised methodology is unclear and results in counter-intuitive price effects as a consequence of substituting spare capacity away. The presence of an explicit capacity substitution mechanism makes spare capacity even more transient and we are yet to see a meaningful definition of spare capacity in this context. Arguably, using forecast rather than peak flows introduces a degree of subjectivity and uncertainty into the process and this is one area that the change in methodology from Transcost to a Transportation Model was designed to improve.

The Option 2b methodology gives more stability and we believe it results in more cost-reflective reserve prices. On this basis we do not support implementation of Option 2a. We would urge

RWE npower

Trigonos  
Windmill Hill  
Business Park  
Whitehill Way  
Swindon  
Wiltshire SN5  
6PB

T  
+44(0)1793/8  
9 39 83

F  
+44(0)1793/8  
9 29 81

I  
www.rwenpowe  
r.com

Registered  
office:  
RWE Energy plc

Ofgem to take a timely decision such that the arrangements to apply from October 2007 are implemented well ahead of the September 2007 QSEC auctions so that potential bidders in these auctions have clarity about the rules.

We hope these views are helpful and if you wish to discuss them further please contact Steve Rose on 01793 892068 or myself on 01793 893983.

Yours sincerely,

Charles Ruffell  
Economic Regulation