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GCM 16 – Supply and Demand Balancing Rules and Supply Source Data

Dear Jemma,

RWE npower welcomes the opportunity to comment on the above consultation and does so on behalf of all its licensed gas businesses. Our response follows on from comments made in response to discussion paper GCD 06 and subsequent presentations and analysis provided by National Grid in the intervening period.

National Grid now prefer adopting supply and demand balancing rules based on a supply merit order featuring six supply groups (Option 9) as this appears to be cost reflective, consistent with their planning approach and possibly more appropriate (compared to their previously preferred Option 3) at lower demand levels or where available supply is significantly higher than demand.

Analysis across three years of Ten Year Statements for four separate gas years indicates that indicative entry and exit capacity prices derived under Option 9 and Option 3 are identical. However, despite Option 9 scaling the last required group by equal percentages we are concerned that the fact it envisages six distinct supply groups (as opposed to three under Option 3) still risks introducing extreme price volatility at exit points close to the supply group sitting on the boundary of where demand and supply is balanced (in much the same way that Option 1 does), albeit the analysis undertaken suggests this appears unlikely. For this reason we still favour Option 3 or Option 6 as these should limit the scope of extreme price volatility still further by (restricting the supply groups to three and two respectively) whilst still being cost reflective and consistent with National Grid's planning approach.

We agree that the Ten Year Statement is the most appropriate source of supply data for beach supplies and that physical capability is the most appropriate source of supply data for all other importation and storage supply sources, with all ASEPs being capped at the obligated/baseline entry capacity level. Whilst this data can be calculated from data available in the public domain National Grid should, for completeness, state these supply capability assumptions by supply group and update them with each release of the transportation model.

We agree it is appropriate to use Section 4.6 of the Ten Year Statement to identify importation and storage entry points under construction along with the gas year

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they are due to become operational, and that only those under construction (as opposed to those that are at a conceptual stage or in the process of gaining consent) be included in the model as available supply sources from the anticipated operational date (which may change over time).

Finally we are happy for any proposal resulting from this consultation to take effect from 1st October 2009 such that exit capacity prices effective from 1st October 2009 and entry capacity reserve prices applicable under the next QSEC/AMSEC auctions (the timing of which will be determined by Ofgem's impending decision on Modification Proposals 230 and 230AV) incorporate more appropriate supply and demand balancing rules and supply source data.

Please do not hesitate to contact me if you wish to discuss our response in more detail.

Yours sincerely,

Steve Rose*
Economic Regulation

* sent by e-mail therefore unsigned