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5th June, 2008

Informal Consultation on Entry Capacity Substitution
May 2009

Dear Andrew,

We welcome the opportunity to comment on this informal consultation. This response is provided on behalf of the RWE group of companies, including RWE Npower plc and RWE Supply and Trading GmbH.

These comments are made without prejudice to any views that we may express in response to the formal consultation on Entry Capacity Substitution and any subsequent Impact Assessment.

Overall, we endorse the principle that investment in new infrastructure should not be undertaken unnecessarily and agree that some form of transparent substitution mechanism to reallocate existing capacity between entry points can achieve this objective. However, we would be extremely concerned if the substitution methodology had the potential for unlimited capacity destruction. In our view, this would occur where there was no restriction on the amount of unbooked capacity at donor entry points that could be used to satisfy incremental capacity requests at other entry points.

Removing the flexibility in the NTS by excessive substituion seems inconsistent with wider policy goals. The UKCS is in decline, with the UK becoming increasingly reliant upon imported gas. Given the importance in the GB generation mix of gas-fired stations in the medium term, it is important to maintain investor confidence in the UK as a place to land gas, including LNG, import pipelines and marginal UKCS fields.

We accept that introducing constraints on substitution may lead to over-investment as substitution opportunities might be missed. However, Ofgem is already considering relaxing the

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extent of user-commitment required to underpin investment in the electricity transmission network. The electricity TOs will face incentives to invest on a more strategic basis in order to deliver infrastructure to support government renewable targets. Implicit in this is an acceptance of asset stranding and this risk being borne by TOs and consumers. We see no strong argument why a similar approach is not appropriate for gas entry capacity. Indeed, we would argue that a degree of over-investment far outweighs the financial impact on consumers of worsening the security of gas supply. The impact would occur both in terms of short-term price spikes and the potential impact on power prices over the longer-term, if gas-fired generation was pushed down the merit order or in extremis, investment in new plant did not come forward.

What has become apparent through the development process and options presented by National Grid at the workshops is that this is a complex issue and that there is no ideal single solution. Our preference would be for a simple approach, based upon retaining flexibility but with progressive reallocation. The mechanical approach, using the Transporting Britain's Energy peak flow data for all entry points would provide a degree of protection of capacity. This peak level could be subject to an annual historic two year rolling basis to reflect declining usage at certain ASEPs and progressively allow more capacity for substitution. We also support National Grid's proposal to base the allocation methodology on a pro rata approach rather than distance related, as this ensures that substitution is shared more equitably.

As we believe that the mechanical approach provides a workable solution, we do not support further development of the option approach or two-stage auction approach as this time. We do recognise that the mechanical approach may not meet all the objectives set out for capacity substitution, in our view it is a pragmatic solution that meets a number of the specific objectives and is also consistent with wider policy.

We hope these views are helpful and would be happy to discuss them further.

Yours sincerely,

By email so unsigned

Charles Ruffell
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