

Andrew Fox
National Grid
Transmission: Commercial
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Your ref
Our ref Log 09 46
Name Steve Rose
Phone 01793 892068
Fax 01793 892981
E-Mail stephen.rose@rwenpower.com

23rd March 2009

Consultation on the NTS Exit Capacity Release Methodology Statement (ExCR) in respect of the Transitional and enduring Exit Periods

Dear Andrew,

RWE npower welcomes the opportunity to formally comment on the above consultation and does so on behalf of all its licensed gas businesses. Our response follows on from our earlier informal comments on the draft ExCR and subsequent correspondence and discussion at the Transmission Workstream.

We are pleased to see that National Grid has taken account of a number of our earlier comments on the draft ExCR. As a result we believe that the basis on which National Grid will release exit capacity in the transitional and enduring periods is now more clearly defined and broadly consistent with its licence and UNC obligations. However we are disappointed that National Grid continues to maintain that incremental enduring capacity requirements at new NTS Exit points need to be included in their licence prior to any application being allowed. This is despite National Grid appearing to accept that a valid mechanism exists under their licence whereby this can be avoided and Ofgem confirming that this is not licence requirement but rather National Grid's preferred method for operating the regime agreed under the current price control.

It is not clear to us whether National Grid consider it necessary to incorporate any revenue driver relating to incremental enduring exit capacity in their licence prior to an application being allowed. Paragraph 36 page 32 of the ExCR and comments at the Transmission Workstream suggest that this might be required (although we see no sign of this occurring in relation to the new sites now being proposed in Table 2 of Annex A to Special Condition C.8.E), but in any case it would seem impractical to amend the licence to include revenue drivers in advance of any application when there is so much uncertainty around whether an application will be made and if so for what quantity.

We do not dispute that National Grid will require a revenue driver to be agreed prior to an application such that they can decide whether or not to exercise an exit project permit. However to insist that any new site or required revenue driver is included in their licence prior to an application being allowed is unnecessary, inefficient and potentially of commercial advantage to National Grid (in that it lessens the risk of them having to exercise a exit project permit to extend the default lead time by

RWE npower

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

T +44(0)1793/87 77 77
F +44(0)1793/89 25 25
I www.rwenpower.com

Registered office:
RWE Npower plc
Windmill Hill Business
Park
Whitehill Way
Swindon
Wiltshire SN5 6PB

Registered in England
and Wales no. 3892782

providing significantly more notice of likely new projects).

We do not accept that National Grid will not be required to make capacity available at a new NTS exit point if it is not included in their licence by an appropriate date (paragraph 35, page 32) as any capacity allocated to such a site would be covered by the licence definition of NTS obligated incremental exit flat capacity and set out in the annual statement published in accordance with Special Condition C.8.E.4.e. As National Grid are obliged under Special Condition C.8.E.3.b to make available both NTS baseline exit flat capacity and NTS obligated incremental exit flat capacity they are not dependant on their licence specifying a zero baseline to be required to make capacity available at such sites.

Nor do we accept that unless a new site is in the licence it cannot be included in the NTS charging model and so an indicative price cannot be produced (paragraph 35, page 32). Indicative prices for new sites that may or may not apply in the application window need not appear in the Transportation Charging Statement but could simply be stated in the application invitation letter (although even this is not strictly necessary as under UNC Section B.1.8.4 they could be provided to individual Users immediately prior to the start of the application window, or in an ad hoc capacity offer). To the extent any new site applies and is allocated NTS obligated incremental exit flat capacity the site could then be added to the Transportation Charging Statement at the next revision.

We believe that it is still possible for National Grid to amend the ExCR to address the concerns expressed above and in our previous dialogue, and we would urge them to do so. To the extent they do not however, we would strongly recommend they review these arrangements in light of their experience of this year's application process and following further discussion with Ofgem regarding revenue drivers, such that this inefficient process can be made more effective in time for next year's annual application window. To suggest that it could take up to six months to complete what is a wholly unnecessary licence change (paragraph 34, page 32) is both confusing and unacceptable and runs counter to the expectations given to Users throughout the lengthy discussions on enduring exit reform.

With regard to the issue of the user commitment associated with capacity increases above baseline that were allocated before 1st October 2008, we would support National Grid's suggested approach as a pragmatic way forward. However, to the extent this may not resolve all the teething problems associated with the initialisation of the enduring exit regime we consider an alternative approach could be to temporarily remove the 20m therm p.a. ARCA limit in the transitional period, say for 1 year. Doing so could allow Users who have secured relatively small amounts of existing capacity above baseline both before and after 1st October 2008 to apply for an ARCA for such capacity. To the extent investment was not required NG could enter into an ARCA for such capacity, which would become an enduring right from 1st October 2012 on top of what was allocated through the initialisation process. Whilst any such ARCA would have a 4 year user commitment, a significant proportion of this would be likely to be discharged in the transitional period thus lessening the impact at the start of the enduring period.

Finally we would make the following points regarding specific paragraphs of the ExCR.

Paragraph 15, page 28 - we suggest this paragraph be amended to reflect Ofgem's letter of 24th February regarding these derogations.

Paragraph 23, page 30 – in our response to the informal consultation we suggested replacing the word “may” in this paragraph with “shall”. As National Grid have not done this we would be grateful if they could explain under what circumstances they would not be required to release NTS obligated incremental exit flat capacity (in response to valid applications) in accordance with the ExCR and their licence.

Paragraph 71, page 39 – the last sentence of this paragraph is somewhat confusing as it is hard to see how the Reservation Party could have paid any of the user commitment in the circumstances described

in sub paragraph b. However, in the unlikely event they had paid anything towards the user commitment presumably this would be have to be deducted from the User's obligation otherwise National Grid would over recover.

Paragraphs 84 & 85, page 42 – reference should be made in either or both of these paragraphs to the fact that under the UNC National Grid is obliged to use its reasonable endeavours to make enduring capacity requested under the ad hoc process available as close as possible to the earliest date specified in the application.

Paragraph 89, page 43 - in our response to the informal consultation we suggested that this paragraph should make it clear that if National Grid played a permit to release capacity early but the User did not require early delivery, National Grid should not get any benefit. As the wording has not been changed we would ask National Grid to clarify whether or not they would benefit in such circumstances (by way of positive increases in the licence term $DLTDVEx_v$), and if so explain why this is appropriate.

Paragraphs 105 and 106, page 47 – in light of Ofgem's decision to remove the term NTS baseline exit flow flexibility from the licence we would expect these paragraphs to be amended accordingly such that there are no restrictions on the quantity of NTS Exit (Flexibility) Capacity National Grid allocate in the enduring period providing this does not require investment. The definition of NTS baseline exit flow flexibility may also need to be removed from Appendices A1 and B2.

Should you wish to discuss our comments in more detail please do not hesitate to contact me.

Yours sincerely,

Steve Rose*
Economic Regulation

* sent by e-mail therefore unsigned