



Lesley Ramsey
National Grid, Transmission Commercial
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Your ref
Our ref
Name Charles Ruffell
Phone 01793 893983
Fax 01793 892981
E-Mail charles.ruffell@rwenpower.com

6th August 2010

Informal Consultation on Exit Capacity Substitution and Revision June 2010

Dear Lesley

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.

We support the principle that investment to provide incremental capacity should not be undertaken unnecessarily and agree that it is important to use efficiently existing system capability. However, consistent with our views expressed regarding entry capacity substitution, we remain concerned about the further tightening of the NTS as a consequence of exit substitution. . Given the key role that new gas-fired generation is expected to play in the medium term, particularly with the expected increase in intermittent generation, any reduction in NTS flexibility and the availability of off-peak capacity is likely to affect security of supply.

The National Grid analysis has indicated that the potential benefits of exit capacity substitution are likely to be modest compared with those entry substitution and we agree that overly complex arrangements are unwarranted.

EXIT CAPACITY SUBSTITUTION

KEY ISSUES WITH EXIT CAPACITY SUBSTITUTION

3.1. SUBSTITUTABLE CAPACITY

We are sympathetic to the view that user commitment should be a component of any access arrangements, but do not agree with the premise that unsold capacity is necessarily “unwanted”,

[RWE npower](http://www.rwenpower.com)

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

as it may simply reflect system capability delivered through "lumpy" transmission investments that is available at a point in time. Shipper capacity requirements have a temporal aspect. In terms of defining Substitutable Capacity, we support the definition included in the consultation.

3.2. SPECIAL SITES

Subject to meeting the requirements of the relevant EU legislation, we do not believe that there should be special arrangements introduced to exclude any NTS offtakes from the scope of exit capacity substitution, our concerns about the adverse impact on flexible generation notwithstanding.

3.3. PARTIAL SUBSTITUTION

Partial substitution may represent the most economic and efficient outcome in terms of minimising the investment needed to provide NTS obligated incremental exit flat capacity and we agree with it in principle. However, National Grid's requirement for a revenue driver prior to an application for NTS obligated incremental exit flat capacity may add a disproportionate level of complexity. We would not support extending or delaying the allocation process, so on balance, our preference would be not to include partial substitution.

3.4. DONOR NTS EXIT POINT SELECTION

We agree with the criteria identified by National Grid and strongly support the requirement for transparency as shippers need to be able to assess the risk of substitution. We support the proposals for the selection of donor NTS exit points.

3.5. PROCESS TIMELINES

The ability of the Authority to veto proposals is an important safeguard in the regime and should be retained. We do accept that the timescales for the decision making processes are tight and think that this is an area that would benefit from further consideration.

3.6. EXCHANGE RATE CAP

We support the concept of an exchange rate cap. This could initially be set at 3:1, subject to annual review.

3.7. EXCHANGE RATE COLLAR

There may be good reasons to set an exchange rate collar, but simplification of the analysis should not be the overriding one. National Grid has indicated that donor exit points downstream of the recipient exit point can provide incremental capacity at an exchange rate normally less than 1:1. This is an efficient outcome and consistent with the aims of substitution.

3.8. NATIONAL GRID / OFGEM DISCRETION

It is not clear what "inappropriate substitution proposals" mean in this context, but our preference would be for a robust methodology, strict application of which would avoid inappropriate substitution proposals. The introduction of discretion has the potential to undermine the substitution process reduce shipper confidence in it. We would expect National Grid to follow the methodology and any discretion to rest with the Authority. Any rejections should be made on objective grounds and the decisions published to the industry.

3.9. TRANSITIONAL RULES

We agree that there may be a case for transitional rules, including in the areas set out by National Grid.

EXIT CAPACITY REVISION

4. KEY ISSUES WITH EXIT CAPACITY REVISION

We agree that exit capacity revision should only apply to the release of funded incremental obligated entry capacity where investment has been made in new infrastructure.

4.1. PROCESS TIMELINES

The proposed approach introduces a significant delay between the entry signal and consequent revision of exit capacity. National Grid has raised their concerns in this area and we would support it being considered further. There may be other mechanisms available to National Grid to manage any increased constraint risks from earlier revision of exit capacity baselines.

4.2. RECIPIENT NTS EXIT POINT

The use of an approach based upon the construct of notional exit points is appropriate.

If you wish to discuss any aspect of our response, please do not hesitate to contact me.

Yours sincerely

Charles Ruffell
Economic Regulation