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Consultation on the Draft Exit Capacity Substitution and Revision Methodology Statement November 2010

Dear Andrew

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

We agree, in principle, with the requirement to utilise efficiently existing transmission network capability and avoiding stranded or inefficient investment. Exit capacity substitution and revision offers a potential mechanism to achieve this, but we continue to be concerned that substituting capacity between exit points will remove flexibility from the NTS. Gas-fired generation is expected to play an increasingly important role in the future energy mix and in particular providing balancing services in the power market as deployment of intermittent generation increases. Any reduction in NTS flexibility and the availability of off-peak capacity, may affect security of supply of both gas and electricity. The exit capacity substitution methodology will need to balance the arguably conflicting objectives of cost savings and reduced system capability.

The consultation seeks views on a number of aspects of the methodology and our comments are set out below:

1. Capacity Release Date with Substitution

National Grid is considering two approaches; substitution to apply from Y+4 or substitution to apply from any date. Although we can see the potential benefits of both, on balance we support limiting substitution to apply from Y+4 only. Our main reasons include consistency with entry substitution, retaining the principle that substitution should be undertaken to avoid incremental investment and providing shippers at donor exit points the opportunity to better mitigate their risks.

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Treatment of Interconnectors
Subject to complying with 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. We therefore agree with National Grid's proposed methodology.

2. Exchange Rate Collar
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 and we agree that there should be no exchange rate collar included in the methodology.

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, we do remain concerned that National Grid's requirement for a revenue driver for the partial investment to be agreed ex ante may add a disproportionate level of complexity and uncertainty into the allocation process. The process for agreeing revenue drivers is controlled by National Grid and Shippers and developers have little influence. Ofgem is proposing a consultation on generic revenue drivers and we hope that this streamlines the application process such that it does not adversely impact upon the methodology.

4. Capacity Available for Sale
We find the drafting in the methodology slightly confusing and believe that it should be clarified. Our understanding of the intent of the provisions is to only include unsold baseline that is not covered by some form of financial commitment in the calculation of substitutable capacity available to satisfy ad hoc and ARCA requests. This approach does have merit, in that it removes the opportunity to sterilise capacity from spurious capacity applications. However, it does introduce a material delay in the application process for ad hoc and ARCA applicants. On balance, we support National Grid's proposed approach.

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

Yours sincerely

By email, so unsigned

Charles Ruffell
Economic Regulation