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2nd September, 2011

Consultation on the Entry Capacity Substitution Methodology Statement August 2011

Dear Lesley

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

As part of this annual review, National Grid is not proposing any substantive changes to the methodology. We note that the methodology remains largely untested due to lack of demand for incremental entry capacity in auctions held since it was introduced and agree that it should remain unaltered at this time.

National Grid is also seeking views on two other issues: removal of the "substitutable capacity quantities" from the methodology and on the appropriateness of the 3:1 exchange rate cap. We do not have a strong view about the continued inclusion of the substitutable quantities in the methodology as it is provided in the retainer letter in any case. On balance though, provided shippers understand that there may be differences, we would prefer the information to be retained within the methodology for the sake of convenience.

The exchange rate is a key element of the substitution framework, as it helps to define the linkage and interaction between donor and recipient ASEPs where substitution is being considered. Capping the exchange rate limits the extent to which capacity can be substituted. Its inclusion in the methodology, therefore, goes some way to address shipper concerns that unfettered substitution would result in unacceptable levels of capacity destruction and removal of NTS flexibility.

In its suite of RIIO-T1 business plan submissions[1], National Grid's has highlighted concerns about future potential scarcity of network flexibility, driven by changing flow patterns on and off the NTS and leading to additional investment and increasing constraint management costs. Removing flexibility in the NTS by excessive substitution would exacerbate this potential problem and it may be timely to review the substitution methodology itself in this context. The review could also consider the continued suitability of the retainer mechanism or whether alternatives, including a mechanistic

[1] E.g. Managing Risk and Uncertainty, July 2011

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approach or two-stage auction may be more appropriate. If it is undertaken, development of and consultation on alternative approaches should take place well in advance of the formal 2012 methodology review.

We hope these views are helpful and if you wish to discuss any aspect of them in further detail, please do not hesitate to contact me.

Yours sincerely,

By email so unsigned

Charles Ruffell
Economic Regulation