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NTS GCD 04: Revision to NTS Entry Capacity Reserve Price Discounts May 2007

Dear Eddie,

We welcome the opportunity to comment on the issues raised in this discussion paper. This response reflects the views of RWE npower and the UK based business of RWE Trading GmbH.

General Comments

The entry capacity regime has undergone significant change since the introduction of monthly auctions in October 1999 and the subsequent long-term allocation framework introduced as part of the 2002 to 2007 transmission price control review. The period since 1999 has been characterised by frequent code modifications that seek to amend the regime to correct for perceived design flaws or to drive certain behaviours.

Under the 2007 to 2012 price control settlement, the design has been changed again with reduced baselines and new requirements on National Grid Gas (NGG) to maximise the use of existing transmission assets via obligations to enable the transfer, trade and substitution of capacity between entry points. These increase the likelihood that unsold capacity may not be available capacity at low or zero cost day-ahead or within-day. Therefore, we believe that shippers will be more likely to secure their entry capacity in medium and long-term auctions.

These changes must be considered alongside the change in the model for deriving entry capacity reserve prices. The replacement of Transcost by a Transportation Model is expected to produce more stable and cost-reflective reserve prices. With more capacity bought long-term at more reflective prices, it is reasonable to conclude that the growing under-recovery against allowed revenue might not persist. As a consequence, the year on year changes and increased volatility of the TO commodity charge that has been observed should be reduced.

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We still believe that the availability of firm and interruptible entry capacity close to the gas day is an important feature of the current regime. It allows shippers to manage their position and react to changing circumstances. A number of regime changes have already been introduced and others are in various stages of development ahead of implementation. This creates uncertainty and undermines confidence in the regime going forward and can see little additional benefit in making further changes at this time.

We do not support changing the current discounts, as in our view, the wider changes proposed to the regime will go a considerable way to addressing many of the concerns highlighted in the discussion document. Clearly, if there continues to be significant under-recovery then the matter should be reconsidered but the regime changes should be allowed to bed-in first.

Specific Questions Raised in the Discussion paper

1. *The principle that, in the absence of an indication of effective competition, NTS Entry capacity reserve prices should not be discounted for Daily auctions of firm capacity.*

We believe that wider regime changes will reduce the future availability of daily firm capacity such that there will be more competition for that which is available.

2. *The principle that, in the absence of a material likelihood of interruption, NTS Entry interruptible capacity should not be auctioned with zero reserve price.*

As the availability of interruptible capacity is based on an expectation that there may be unutilised firm entry capacity on a gas day, this could be considered as a suitable surrogate for the likelihood of interruption as availability and risk of interruption would increase as firm flows increased.

3. *That secondary capacity trading of Users' surplus holdings at an NTS entry point is inhibited by the availability, at a substantial discount, of primary capacity at the same entry point.*

There are other factors that influence the lack of secondary capacity trading, for example that entry capacity has, to date, been a low value product, costs are largely sunk costs and it provides an element of insurance against overruns.

4. *Whether it is a practical necessity to always have auctions with zero reserve price in pursuit of price discovery and clearance of Obligated NTS Entry capacity.*

We can see merits in retaining zero reserve prices and consider that they help NGG discharge its obligations for maximising available capacity for a gas day.

5. *Specifically for Day-ahead NTS firm entry capacity auctions – should the 33% discount on NTS Entry Capacity Baseline Reserve Prices be removed, applied conditionally at each NTS entry point (indication that there is sufficient competition in play such as 90% of the capacity available in Quarterly and Monthly auctions is sold.), or retained?*

We believe that the current discounts should be retained.

6. *Specifically for Within-Day NTS firm entry capacity auctions – should the 100% discount on NTS Entry Capacity Baseline Reserve Prices be removed, applied conditionally at each NTS entry point (indication that there is sufficient competition in play such as 90% of the capacity available in Quarterly and Monthly auctions is sold.), or retained?*

We believe that the current discount should be retained and applied unconditionally. We do not support the inclusion of an arbitrary threshold.

7. *Specifically for Interruptible NTS entry capacity auctions – should the 100% discount on NTS Entry Capacity Baseline Reserve Prices be applied conditionally at each NTS entry point (i.e. only when there is a material probability of interruption such as when 90% of the firm capacity available is sold), or retained?*

We believe that the current discount should be retained and applied unconditionally. We do not support the inclusion of an arbitrary threshold and in any the calculation of interruptible capacity contains a de facto test of probability of interruption.

8. *The effect of discounting on other charges (e.g. TO Entry Commodity Charges) that Users may pay.*

As the TO commodity charge is designed to correct for auction under-recovery then there will be an effect to the extent that there is an under-recovery. We believe that the arrangements introduced under the current price control, reduced baselines and use of a Transportation Model will reduce the extent of under-recovery and may create over-recovery.

9. *When any proposed changes to discounts should be implemented or further considered?*

The current discounts should remain in place and the issue reconsidered following the next long and medium term auctions and once the transfer and trade mechanisms have been established.

We hope these views are helpful and if you wish to discuss them further please contact Steve Rose on 01793 892068 or myself on 01793 893983.

Yours sincerely,

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