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**NTSGCD10: Potential one-off change to TO Exit (Flat) Capacity Charges for April 2013  
October 2011**

Dear Colin,

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

We agree that network charging volatility and the ability to predict charges reasonably accurately is an important issue for suppliers and shippers and, ultimately energy consumers.

National Grid Gas (NGG) has shown that moving to the new RIIO price control framework from April 2013 may introduce significant year on year price volatility into future NTS Exit Capacity Charges, particularly where Allowed Revenues under RIIO-T1 represent a step change from current levels. NGG's analysis indicates that a key driver of volatility is created by the misalignment of the Formula Year and Charging Year, although there are number of contributory elements. We support the proposed one-off change to NTS Exit Capacity charges in April 2013, with charges set again in October 2013. This approach should mitigate some of the observed volatility and can be implemented relatively quickly.

However, we do have broader concerns that, as the RIIO price control framework emphasises incentives and the use of uncertainty mechanisms, Allowed Revenues will be less stable and, in turn, this will increase volatility and decrease predictability of network charges. This is particularly true of gas transmission as there is uncertainty about the level of incremental capacity likely to be triggered. Ofgem's recent proposals on network charging volatility<sup>1</sup> notwithstanding, we believe that a permanent move to April charge setting from 2014 should be considered. This consideration should include a detailed assessment of the Transportation Model which has proved overly sensitive to supply/demand assumptions and has led to material changes between indicative and final transportation charges as assumptions

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<sup>1</sup> Decision in relation to measures to mitigate network charging volatility arising from the price control settlement October 2012

have changed. The industry needs to make sure that any enduring solution addresses concerns about predictability as well as volatility.

Our answers to the questions raised are set out below in Attachment 1

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

## **ATTACHMENT 1: CONSULTATION QUESTIONS**

**Question 1: Do you support the use of a one-off April change effective from April 2013?**

Yes.

**Question 2: Do you agree that a one-off April 2013 charge change should only be used if the outcome of the RIIO-T1 price control presents a significant step change in allowed revenues?**

The Discussion Document sets out two revenue scenarios that, we assume, show a range within which the final RIIO-T1 outcome will lie. Without a definition of what a “significant step change” is, our preference would be to see the impact that the final allowed revenue has on the individual NTS Exit Capacity charges before making a decision. Given the saw tooth effect of future NTS Exit Capacity charges that NGG has demonstrated, it may be worth making a one-off change even where there is only a modest impact.

**Question 3: Would a one-off April change have an adverse impact on any of your business processes?**

No.

**Question 4: Are there any other items in relation to the use of a one-off change that you believe to be relevant that should be taken into account or warrant further consideration?**

We would like to understand whether there will be any impact from using earlier supply and demand data in calculating charges, as the charge setting timetable is effectively brought forward 6 months from October to April. The issue of data needs also to be considered in the context of any permanent move to April charge setting.