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19<sup>th</sup> October 2005

### **Initial Proposals on Transitional Incentive Schemes Supporting the Offtake Arrangements September 2005**

Dear Mark

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

The delay in introducing the enduring offtake arrangements until 2007 created a gap in the regime to access offtake rights, between the end of the interim arrangements on 30th September 2008 and proposed access to long-term offtake rights beginning from October 2010. In general, we support the approach proposed by Ofgem. Implementing transitional arrangements for the period will provide additional clarity and aid investment planning, although we accept that both the DNs and NTS face some uncertainty in certain areas. Overall, the detailed arrangements are pragmatic, minimise changes and make use of existing processes.

However, the implication of “transitional arrangements” is that there is a need for further change. While modest changes may be required, we have yet to see a compelling case for the fundamental regime changes proposed for the enduring arrangements in the Authority’s Final Impact Assessment regarding NTS exit capacity and offtake reform. At this time there are no clear reasons to move away from an approach based upon licence and other statutory investment obligations allied with a centralised planning model. If Ofgem remains wedded to the objective of requiring financial commitment for incremental capacity requests, then this could be achieved through ARCAs, rather than capacity auctions. Indeed, DN ARCAs are a new feature of the transitional arrangements and as Direct Connects are already familiar with these, they could form the basis of any enduring arrangements. It would also ensure that Direct Connects and DNs were treated equally, although the ARCA would need to balance the risk between the buyer’s commitment to pay and the seller’s obligation to deliver the requested capacity on time.

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We have set out a number general comments, as well as providing more detailed responses to specific issues raised in the consultation, which are appended below. We hope these views are helpful and if you wish to discuss them further please contact Steve Rose on 01793 892068 or Charles Ruffell on 01793 893983.

Yours sincerely

Charles Ruffell  
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## Specific Questions Raised

### The proposed targets for NTS offtake (flat) capacity and NTS offtake (flexibility) capacity;

It is not entirely clear that Ofgem should impose its calculation of the 1 in 20 level of capacity bookings, when the licence obligation sits with the DN. We accept there is uncertainty but the DNs should be free to determine their own requirements providing that any subsequent costs are not passed through. The data presented in table A1.2 does not show conclusive evidence of DNs overbooking NTS exit capacity.

### The most appropriate reference price for NTS exit rights;

In the absence of a separately defined price for exit (flexibility) capacity, then it is appropriate to align the treatment of the DNs and DCs. Our only concern is that if flexibility capacity is unbundled in the future it will be priced on different basis and we would like to better understand how the targets and incentives might be affected.

### The proposed definition of caps, collars and sharing factors in the DN transitional incentive schemes;

We agree that the proposed definitions provide the sharpest incentives on the DNs to book NTS exit capacity appropriately and to consider trade-offs between alternatives, such as increased interruption on their networks. The performance measures should be set as fixed percentages.

### The proposal not to define an incentive for cost of greater than 15 day interruptions by DNs at this time;

We agree that this should be considered as part of the DPCR process.

### The proposal not to define NTS incentives for the transitional period at this time but to defer setting of these incentives to the forthcoming TPCR process;

We agree that it is appropriate to consider the NTS incentives within the wider TPCR process.