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**Adjusting National Grid's revenue allowances when large new entry points connect to the gas transmission system**

Dear Colin,

RWE npower welcomes the opportunity to respond to the above consultation.

The issues raised in the consultation are also relevant to the wider ongoing debate about the charging methodology to be applied throughout National Grid Gas's (NGG) next transmission price control. Our response to this consultation is made without prejudice to any future response we may make regarding this wider issue.

As a broad principle we believe that any new UCAs set in advance of the NGG's next transmission price control should be based on up to date information. This will ensure that shippers who bid for capacity at new entry points in the forthcoming long-term auctions do so on the basis of reserve prices that are reasonably cost reflective. Whilst this may mean that UCAs are calculated using different criteria compared to existing entry points or new entry points that have arisen since 2002, we do not believe this necessarily constitutes undue discrimination recognising the limited period during which these UCAs will be effective.

We agree that the "Auctions +" supply scenario presented in NGG's last 10 Year Statement is appropriate to use for network modelling along with their 1 in 20 peak demand scenario. NGG's 10 Year Statement makes the point that the network reinforcement required over the ten year period under consideration are similar regardless of which of their three supply scenarios is used, which gives us some comfort that using only the "Auctions +" scenario will give reasonably robust results.

We also agree with Ofgem's approach to defining the 2008/9 base network and believe it is appropriate to use this for all new entry points, regardless of when they are expected to be commissioned. This should ensure the most accurate picture is used of the starting base network as investment is already largely committed for new infrastructure planned to be in place at this time.

In deciding the range of years the network should be modelled for a balance needs to be struck between the complexity of the modelling required, the difficulty in producing

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robust long term gas forecasts and the risk of inadequately reflecting the short or long term impact of any new entry point. In our opinion using a 5-year time horizon from 2008/9 (in line with the starting base network) would seem to strike an appropriate balance between these factors.

Bearing in mind the phased nature of new entry point investment, and to avoid any incentive for gaming by shippers/developers, we would support setting separate UCAs based on ranges of flow increments. It is not clear from the consultation whether these ranges would be standard for all large new entry points or whether these would be specific to each but we believe it should be the latter. In the event capacity booked in the auctions exceeded the top end range we agree that the developer should seek a new UCA. Only capacity up to the top end of the range should be allocated as this will help to ensure accurate information is presented with each application.

We believe that developers should continue to face a choice as to whether they want their UCA application to include a connecting pipeline to the NTS or not, and that the current NPV test remains appropriate under either scenario. We do not see the logic of making a distinction between the treatment of connecting pipelines and other network reinforcement costs for UCA setting purposes.

It would also seem appropriate to allocate cost between entry and exit based on which approach is used to ensure a network balance. In the case of large new entry points we believe supply substitution is the most realistic approach to ensuring a network balance. It is not appropriate to use a load absorption approach (even under the "Transit UK" supply scenario) as this fails to identify specific exit points which would in reality absorb the increased supply and simply models the effect across all exit points. Clearly the majority of exit points will in reality not be able to absorb anything above their existing 1 in 20 assumptions.

Supply substitution should in our opinion be assumed to be pro rata at existing entry points. This seems the most pragmatic solution to a modelling issue for which there is no right answer and to an operational issue on the day that will be determined by many different dynamic factors.

With this in mind we believe that for large new entry points it is appropriate to allocate costs for UCA setting 100% to entry.

Finally we believe it is appropriate for cost reflectivity to use the most up to date cost data when setting UCAs and that no distinction should be made for storage entry points for strategic reasons. We do not believe that in doing so this will lead to any new entrant being unduly discriminated against. It is arguable that using out of date cost data to set current UCAs may constitute discrimination in favour of new entrants as all other things being equal this would result in auction reserve prices being lower than they would otherwise be, which could result in price control re-openers and asset stranding.

I apologise for the slight delay in meeting your consultation deadline and hope that this does not prevent you taking our views into consideration.

Should you wish to discuss any of the points raised in our response please do not hesitate to contact Charles Ruffell (01793 893983) or myself.

Yours sincerely,

Steve Rose  
Economic Regulation

Sent by e-mail and therefore not signed