

David Howdon
Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

Your ref 63/06
Our ref
Name Charles Ruffell
Phone 01793 89 39 83
Fax 01793 89 29 81
E-Mail charles.ruffell@rwenpower.com

12th May, 2006

Proposed Incentive Arrangements for the Provision of NTS Entry Capacity at Milford Haven
April 2006

Dear David,

We welcome the opportunity to comment on the issues raised in this consultation.

We agree that it is appropriate to introduce new capacity incentive arrangements on National Grid Gas NTS (NGG NTS) at Milford Haven and that the principles set out in paragraph 4.3 are an appropriate basis for development of the new incentives.

The current entry capacity arrangements are based around financial rather than physical rights. NGG NTS trade-off the incentive revenues it receives from releasing incremental capacity with the buy-back costs that may arise where capacity it has sold cannot be provided. In our view, this creates a misalignment in the risks faced by NGG NTS and the relevant shippers at Milford Haven where capacity is delivered late. Whilst NGG NTS face a capped liability, the potential costs to the relevant shippers are penal. These costs are both direct, in the shipper facing the opportunity costs that arise as a consequence of late infrastructure delivery and indirect, as any supply shortages may disrupt the market. This point is substantiated by the analysis undertaken by Deloitte and reported in this consultation document.

In our view, the incentive arrangements should start from the principle that NGG NTS is fully responsible where they fail to deliver capacity, except in limited circumstances where there are factors truly beyond their control. Even then, the provision of transmission capacity is their key activity and while specific issues may be unique to a project, the risks that they might arise must be well understood. On this basis we would not support a winter "skip" period or any other deferrals as these limitations could have reasonably been anticipated and factored into the project delivery timetable.

RWE npower

Trigonos
Windmill Hill Business
Park
Whitehill Way
Swindon
Wiltshire SN5 6PB

T +44(0)1793/89 39 83
F +44(0)1793/89 29 81
I www.rwenpower.com

Registered office:
RWE Npower plc
Windmill Hill Business
Park
Whitehill Way
Swindon
Wiltshire SN5 6PB

Registered in England
and Wales no. 3892782

The new arrangements have the advantage of increasing the incentives on NGG NTS to deliver capacity in line with the agreed timetable and providing a degree of additional protection for consumers. It does make sense to profile the payments on a month by month basis, although without a detailed understanding of the likely capacity delivery date it is difficult to make a fully informed recommendation between any of the options presented. We do not support additional regulatory intervention to minimise the costs of delay in the provision of capacity. It may be appropriate for the parties to enter into bi-lateral agreements, provided that neither side has disproportionate negotiating strength.

We supported the buy-back proposals set out in the March 2006 Transmission Price Control Review and believe that the new arrangements proposed at Milford Haven are consistent with them. Although we acknowledge that there may be delays caused by exceptional events for any major infrastructure project, we believe that in this case it is appropriate to sharpen the incentives on NGG NTS.

We hope these views are helpful and if you wish to discuss them further please contact me on 01793 893983.

Yours sincerely,

By email so unsigned

Charles Ruffell
Economic Regulation