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25th May 2007

Transmission Price Control Review (TPCR): Third Consultation on draft licence modifications (Gas transmission)

Dear Colin,

RWE npower welcomes the opportunity to comment on the above consultation which was issued in two parts on the 25th April and 16th May. Whilst not party to the licence conditions being consulted upon directly our comments reflect our concerns and uncertainty about how these conditions will affect shippers.

Special Condition 8D Part C 7.d.vii

This condition ensures that obligated incremental entry capacity defaults to entry capacity baseline capacity after five years. Whilst we have no problem with this clause, we believe this principle should also apply to obligated incremental exit capacity. As far as we can see this is not the case and as such we believe this principle needs to be incorporated into Special Condition 8E.

Special Condition 8D Part C 7.j.iii

The intent of this condition seems to be to allow National Grid to vary proposed substitutions based on consultation submissions received from shippers, which we support. However, the consultation referred to in this condition relates to revisions to the methodology statement for baseline substitution not any specific consultation on the proposals to effect a particular substitution following the QSEC auctions. Assuming this is the intent of this condition, we believe this principle should also apply to exit baseline substitution and therefore the wording contained in Special Condition 8E Part 4.c.iv.C would also need to be amended appropriately.

Special Condition 8D Part C 8.d.ii & 9.d.ii

We believe these clauses need to recognise the materiality of increased costs National Grid may be exposed to as a consequence of the capacity transfer and trade obligations. Simply referring to "undue increases in costs" could result in National Grid fulfilling these obligations only if there is a zero risk of entry capacity buyback. We suggest that "avoiding undue risk of material increases in costs" would be more appropriate wording.

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Special Condition 8D Part C 9.a

We are not sure why this condition refers to two or more shippers applying for trade rates as we believe that entry capacity trades will largely be undertaken within an individual shipper's portfolio of entry capacity, not between shippers. Theoretically therefore, if only one shipper applied for a trade rate for entry capacity within its portfolio this condition would not apply.

Special Condition 8E Part 1.a

The term "delivered" in this clause refers to the licensee's contractual date of delivery for NTS incremental exit capacity shipper capacity. In the absence of an ARCA in the transitional period and under the application process applicable for acquiring prevailing NTS Exit Capacity in the enduring period, we are unsure how this specific date will be defined.

We also note that unlike at entry, Special Condition 8E makes no mention of a default incremental NTS Exit Capacity lead time (38 months). As this is a key principle underpinning enduring exit reform we believe this should be specifically referenced in the licence itself, rather than relying on the Uniform Network Code (UNC) and a revision to the IExCR Methodology Statement (at the point in time when the enduring arrangements become effective) to give effect this lead time.

Special Condition 8E Part 1.b.i

The wording of this clause reflects Ofgem's decision not to apply an operational exit capacity buy back incentive scheme during the enduring period and as such operational buy back costs shall be borne in full by National Grid. It should be pointed out however, that Modification Proposal 116V provided for National Grid's operational exit capacity buy back actions to be smeared back to shippers (New TPD Section B.3.9.7, B.3.16.2.b and B.3.16.4). As such its implementation is counter to the principle that National Grid shall bear the full costs of operational buy back during the enduring period, and this will need to be rectified by way of a change to the UNC in due course.

Special Condition 8E Part 1.d.i

It is not clear to us how the term $ExCIIR_t^{projspec}$ will vary if any of the anticipated investment projects deliver a user commitment for NTS incremental exit shipper capacity, or NTS obligated incremental exit flat capacity, at a level either less than or greater than the level specified in this condition.

Special Condition 8E Part 1.g

The drafting of this condition does not seem to reflect Ofgem's TPCR final proposals to provide National Grid with extension permits for 365 days for 30 GWh/day to be used, on an ex ante basis, during the next price control period. Also, the drafting makes no mention of Ofgem's proposal to reward National Grid if it manages to deliver capacity without needing to play a permit by the end of the price control period, by attributing a residual value to the full permit of £3million.

Special Condition 8E Part 2.b.ii

We are unsure how the figure of £4000 per mcm of NTS exit flow flexibility capacity, used to determine allowed revenue from the sale of NTS non-obligated incremental exit flow flexibility, has been derived. We do not recall this figure featuring in any of Ofgem's TPCR consultations.

Special Condition 8E Part 4.c.i & 4.d.i

The statements for exit baseline substitution or revision referred to in these conditions need also to refer to those revisions pursuant to paragraph 3(a)(v), i.e. flexibility adjustments resulting from release of NTS obligated incremental exit flat capacity.

Special Condition C24 - Network Model

We are disappointed that this condition no longer provides for the Network Model to be made available to interested parties and now seems to be being provided exclusively for Ofgem's use. We understand that this may be because of concerns expressed by National Grid about the security implications of releasing this model in the public domain. Whilst we recognise the potential sensitivity associated with this model, we do not believe the licence condition should preclude it being made available to interested parties absolutely, bearing in mind the fundamental changes being introduced as a result of this price control (e.g. user commitment, entry baseline reductions, capacity substitution and NTS exit flow flexibility capacity). Appropriate provision of such a model to interested network users will go a long way towards providing the transparency necessary to support their investment decisions, and will ensure a level playing field exists between all network users, and between networks users and National Grid. To this extent we believe the licence condition needs to state that the Network Model will be made available subject to appropriate provisions restricting its use, to Ofgem and to parties with a demonstrable legitimate interest in receiving it.

Should you wish to discuss our response in more detail please do not hesitate to contact me.

Yours sincerely,

Steve Rose
Economic Regulation

Sent by e-mail and therefore not signed