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9th November 2007

Capacity outputs incentive for GDPCR - October Update Consultation

Dear Joanna,

RWE npower welcomes the opportunity to respond to the above consultation and does so on behalf of all its licensed gas businesses.

We are not in a position to judge the extent to which it is appropriate to now base the interruptible capacity incentive on the cost of making all interruptible capacity firm, as opposed to just NSL capacity. However, it appears that not all DNs require a minimum level of interruption in order to make efficient trade offs between NTS flat capacity and interruption. To this extent, if the interruption capacity incentive is now to be based on this premise, care should be taken to ensure that certain GDNs do not benefit disproportionately. We agree that unnecessary capex triggered as a consequence of the way the interruption incentive is set would be an undesirable outcome. Applying a lower sharing factor to any underspend against the incentive or including a collar but not a cap, would perhaps address these concerns more effectively than applying 50% upside and downside sharing factors with no caps or collars.

Following Ofgem's somewhat bizarre decision to reject Modification Proposal 139A (raised by our sister company RWE Trading GmbH) shippers are not party to GDNs OCS bookings and we have no idea how closely the flat capacity proposals contained in Table Two reflect these. As it is not possible for us to gauge the extent to which shippers may be exposed or GDNs are likely to benefit under this incentive, providing informed comment on how the flat capacity incentive should be structured is difficult. With this in mind we would be reluctant to move away for the 100% sharing factor that currently applies to this incentive, although a wider cap and collar may be appropriate.

As stated in our response to the GDPCR Updated Proposals document, we see no need to incentivise GDNs bookings of flexibility capacity at this stage. The concept of the NTS flexibility product, which GDNs are required to book as part of the OCS process following the completion of GDN sales, is not an appropriate product for direct connects, and we think it is wrong for Ofgem to assume that it may be allocated via an auction process in future. To the extent that GDNs continue to require flexibility capacity to meet their safety case (although we understand its use is not being monitored by NTS on a real time basis) this

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should continue to be allocated through the OCS process. If Ofgem think it appropriate to subject this process to further regulatory scrutiny so be it, but a simpler way of overcoming any concerns may simply be to ensure the results of all OCS booking process are made available to all Users (as proposed under Modification Proposal 139A).

We agree that bearing in mind the changes proposed to the interruption incentive there should be no need for a capex re-opener in the event GDNs are unable to secure the interruption they need in future interruptible capacity auctions and therefore have to make investments. Nevertheless as we think the likelihood of this is high, to the extent that inefficiencies may exist in the trade off between the interruption incentive and the capex roller incentive, capex re-openers cannot be discounted.

Ofgem's proposed criteria against which they would consider any capex re-opener submitted by a GDN seem appropriate, and it is reassuring to know that Ofgem believe they understand sufficiently clearly the materiality of the capex projects already identified through the GDPCR process which may need upgrading.

With regard to the incoming adjusting event threshold we do not think it appropriate to reduce the threshold from £2m for formula year 2012/13 if capex re-openers are to be allowed and bearing in mind the changes to the interruption incentive being proposed. However, if this threshold is felt to be too high for the level of risk GDNs are potentially exposed to under these incentives, basing the threshold on a percentage of GDN allowed revenue would be consistent with how income adjusting events resulting from the Traffic Management Act and changes in Corporation Tax are being treated.

We hope you find our comments helpful and in the event 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