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**Review of Entry Capacity Operational Buy-back Incentive and Default Incremental Entry Capacity Lead Time
February 2009**

Dear Stuart,

We welcome the opportunity to comment on this Consultation. This response is provided on behalf of the RWE group of companies, including RWE npower, RWE Supply and Trading GmbH and npower renewables Ltd, a fully owned subsidiary of RWE Innogy.

It is important that incentive parameters are set to induce specific behaviours, in this case for National Grid Gas (NGG) as SO to contain buy-back costs and be proportionate to the risks being faced. Based upon the historic evidence of out performance, we support Ofgem's proposal to decrease the target level of the entry capacity operational buy-back incentive and place a sharper incentive on National Grid Gas. We also agree that any review of the default incremental entry capacity lead time should be undertaken at the next transmission price control review.

Entry capacity operational buy-back review

There have been a number of changes since the incentive parameters were set and then updated. These include changes in forecast pattern of beach flows and the completion of projects that will increase the capacity and flexibility of the NTS. Coupled with the ongoing decline in UKCS volumes, we believe that these will reduce requirement for constraint management and hence the risk faced by NGG.

Of the options presented, we support Option 3 to change the target and agree that £13m provides an appropriate risk-reward balance. To retain the current target would over reward NGG. This change will deliver a better outcome for consumers than finessing the other incentive parameters.

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Review of default incremental entry capacity lead times

There are a number of wider developments, such as to the planning arrangements as well as regulatory changes, such as Substitution and Credit that will interact with capacity investment decisions. We agree that at this stage it will be better to defer the review until these processes have concluded.

Whilst it may be inappropriate at this stage to review the default incremental entry lead times we would point out that should the Authority approve either of Modification Proposals 230 or 230AV this will have the effect of bringing forward the QSEC auction date. Whilst the default lead time will not be changed by either of these Proposals, bringing forward the QSEC auction date has the effect of enabling NGG to utilise a fourth summer build period for construction activities, which is the reason why NGG were arguing for a 48 month lead time in TPCR 4.

We hope these views are helpful and if you wish to discuss any aspect of them in further detail, please do not hesitate to contact me.

Yours sincerely,

By email so unsigned

Charles Ruffell
Economic Regulation