



Stuart Cook  
Senior Partner, Transmission and Governance  
The Office of Gas and Electricity Markets  
9 Millbank  
London  
SW1P 3GE

Your ref 104/10  
Our ref  
Name Charles Ruffell  
Phone 01793 893983  
Fax 01793 892981  
E-Mail charles.ruffell@rwenpower.com

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## Gas Shipper Entry Credit Arrangements August 2010

Dear Stuart

We welcome the opportunity to comment on the open letter. This response is provided on behalf of the RWE group of companies, including RWE Npower plc and RWE Supply and Trading GmbH.

We agree that the current Income Adjusting Event (IAE) provisions are deficient and that the proposed clarifications should be made. Although the definition of “*relevant system operation costs*” is broad, we assume that its application will be constrained by the materiality thresholds set out in Special Licence Condition C8C 3 (b).

Although it is Ofgem’s intention to implement any licence changes before October 2010, we do not think that the IAE provisions should be available retrospectively. There is clearly a desire to address industry concerns in relation to the incentive revenue associated with capacity signalled at Fleetwood. National Grid Gas has responded to the incentive framework put in place for the current price control settlement and should not be penalised for operating in the manner that the incentives are designed to engender. However, in our view, it is the design of the incentive framework itself that should be subject to further consideration.

During industry discussions in Review Group 0221<sup>1</sup>, in our response both to Modification Proposals 0246<sup>2</sup>, 01246A and 0246B and to Ofgem’s subsequent Impact Assessment<sup>3</sup> our position has been that, in principle, system users triggering incremental entry capacity should be prepared to underwrite the associated investment costs. The liabilities should be cost-reflective and would be based on actual costs or a suitable proxy. This would result in efficient investment decisions and an appropriate balance of risks between new and existing system users. The incentive elements of the entry credit arrangements were deemed out of scope for the UNC processes and the eventual modification proposals addressed two narrower issues.

RWE npower  
Trigonos  
Windmill Hill Business  
Park  
Whitehill Way  
Swindon  
Wiltshire SN5 6PB  
T +44(0)1793/87 77 77  
F +44(0)1793/89 25 25  
I www.rwenpower.com

<sup>1</sup> Review of Entry Capacity and the Appropriate Allocation of Financial Risk

<sup>2</sup> Quarterly NTS Entry Capacity User Commitment

<sup>3</sup> User Commitment for NTS Quarterly NTS Entry Capacity - Initial Impact Assessment ,  
October 2009

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

We continue to believe that user commitment should form a part of a well functioning. efficient entry capacity regime and more robust provisions are required. As Ofgem has already signalled<sup>4</sup> its intention to review the current incentives and entry capacity release trigger as part of TPCR5, the level and nature of user commitment should be included as an integral part of the review.

If you wish to discuss any aspect of our response, please do not hesitate to contact me.

Yours sincerely

*By email so unsigned*

Charles Ruffell  
Economic Regulation

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<sup>4</sup> 100/10 Open letter consultation on TPCR5 – the way forward, July 2010