

Lewis Hodgart
Senior Manager, Gas Transmission Policy
Office of Gas and Electricity Markets
Cornerstone
107 West Regent Street
Glasgow
G2 2BA

Your ref 17/11
Our ref
Name Charles Ruffell
Phone 01793 89 39 83
Fax 01793 89 29 81
E-Mail charles.ruffell@rwenpower.com

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**Gas Transmission Exit Capacity Substitution and Revision Methodology – Initial Impact Assessment
February 2011**

Dear Lewis,

Thank you for the opportunity to comment on this initial impact assessment. This response is provided on behalf of the RWE group of companies, including RWE Npower plc and RWE Supply and Trading GmbH.

We agree, in principle, with the requirement to utilise efficiently existing transmission network capability and avoiding stranded or inefficient investment. Exit capacity substitution and revision offers a potential mechanism to achieve this and the proposed methodology is proportionate to the level of expected benefits and consistent with National Grid Gas' (NGG) licence. However, in order for shippers, GDN and potential connectees to the NTS to understand fully the risks of substitution to their offtakes, additional transparency is required, notably regarding the extent and location of spare capacity.

Despite Ofgem's assertion that the methodology will not change NGG's firm exit capacity obligations, we continue to be concerned that substituting capacity between exit points will lead to an increasingly constrained NTS. Gas-fired generation is expected to play an important role in the future energy mix and in particular providing balancing services in the power market as deployment of intermittent generation increases. Any reduction in NTS flexibility in general and the availability of off-peak capacity in particular, may affect the security of supply of both gas and electricity.

Ofgem's IA does not demonstrate a compelling case for implementing the methodology. The quantitative benefits related to avoided or deferred capex are necessarily scenario-based and with changed assumptions these benefits will not be realised. The IA does not identify any costs

[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

from implementing the methodology, but we believe that there will be implications for gas-electricity market interactions as well as costs on NTS Users from the increased complexity introduced into the regime. Inclusion of these costs would further undermine the case for implementation.

Answers to the detailed consultation questions are set out in Appendix 1, below.

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

APPENDIX 1: Consultation Questions

CHAPTER 3: NGG's Exit Capacity Substitution and Revision Methodology

Question 1: Are there additional aspects of the methodology that should be highlighted?

The Impact Assessment sets out all the relevant aspects of the proposed methodology.

Question 2: Are the scenarios analysed appropriate and relevant to system development? If not, why not?

The scenarios show mechanistically how the methodology would work. We cannot comment on the credibility or likelihood of the scenarios being seen. The principal quantitative benefit arises as a consequence of assumptions made and different assumptions would lead to a different outcome. Key here are assumptions about entry flows and the availability of spare capacity.

CHAPTER 4: Assessment of NGG's proposed methodology

Question 1: Do you agree with our assessment of the methodology (within the framework of the current licence)?

The methodology meets the obligations on National Grid Gas to introduce exit capacity substitution and exit capacity revision and appears to be consistent with paragraphs 4(b)(iii) and 4(c)(iii) of Special Condition C8E. Although we agree with the proposal that the revision methodology will be applied only when NGG is confident about the level of gas flows against the incremental entry capacity, it is less clear whether this is consistent with the current licence.

Question 2: Are there any quantitative benefits that have not been included in our assessment?

No. We agree that the main quantitative benefit of exit capacity substitution will be to delay or avoid the need for new investment to meet demand for incremental exit capacity. Ofgem's analysis indicates the materiality of benefits from substitution and these are consistent with the assumptions made.

It is unclear why Ofgem believe that the exit capacity revision methodology will add transparency to the availability of spare exit capacity on the system. Other than to recognise explicitly the linkage between investment at entry and capability at exit, there is little proposed additional transparency regarding spare capacity.

Question 3: Are there any qualitative benefits that have not been included in our assessment?

In our view, the planning benefit and environmental benefit will already be reflected in the assumed benefit from avoided investment so should not be counted twice.

Question 4: Are there any quantified costs that have not been included in our assessment?

It is surprising that Ofgem did not identify any quantitative costs arising from implementing the methodology. Potential costs might include additional costs for shippers and GDNs in analysing the risk that capacity might be substituted and adapting their capacity strategy; developers needing to commit to exit capacity earlier than optimal considering their project development timeline to mitigate the risk of substitution away from a particular area; and, more importantly, the impact on electricity security of supply from a permanent loss of short-term flexibility in the gas

system particularly in light of the role gas-fired generation is expected to have in mitigating wind intermittency.

Question 5: Are there any qualitative costs that have not been included in our assessment?

The protracted development of the methodology may have increased the perception of regulatory risk in the UK and may have undermined or delayed projects wishing to connect to the NTS.