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Consultation Letter: Income Adjusting Event claim for the Canatxx incremental entry capacity signal at Fleetwood March 2011

Dear Paul,

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

We share the industry's general concerns with the position at Fleetwood and agree that it has highlighted a serious flaw in the gas entry capacity access arrangements. However, we are not convinced that it is appropriate to deal with the position through an Income Adjusting Event. Furthermore, it is not clear that National Grid has received a "windfall" gain. Rather it 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, although we do agree that National Grid's potential buy-back exposure is likely to be limited.

Releasing financial rather than physical access rights de-links actual investment costs and incentive revenues earned by the System Operator. Any attempt to establish this linkage retrospectively in order to limit National Grid's entitlement distorts the incentive framework and introduces regulatory risk. As we enter into a period where significant levels of investment are required over the next two decades to deliver the Government's decarbonisation and renewable energy aspirations, undermining the conditions necessary to support this scale of investment must be avoided.

However, in our view, it is the design of the incentive framework itself that should be subject to further consideration as part of RIIO-T1. Any review should include the capacity release mechanism and consider more robust user commitment arrangements. System users triggering incremental entry capacity should underwrite at least part of the associated costs. Any liabilities

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should be cost-reflective and could be based on actual costs or a suitable proxy, such as the SO incentive revenue should that mechanism be retained. This would result in efficient investment decisions and an appropriate balance of risks between new and existing system users.

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