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**Determining revenue drivers for South East exit capacity  
December 2011**

Dear James,

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.

The consultation sets out the methodology and assumptions in setting the revenue drivers for a number of potential power station and storage projects in the South East. We support the overall approach for a banded revenue driver for the CCGTs and specific revenue driver for each of the storage projects. Modelling the impact of interactive and non-interactive demands on required reinforcements is also important. However, it must be recognised that non-specific revenue drivers may not fully reflect the capacity requirements of individual projects, in particular pressure requirements.

Another drawback with generic revenue drivers is a reduction in transparency of the actual investment. The south-east quadrant is large geographically and without identifying each project individually it is difficult to understand fully the interaction between them, the full extent of the prospect for common network investment and the sensitivity of additional investments associated with modelling "least helpful" supplies.

We do have some concerns about the input assumptions, notably that National Grid Gas (NGG) has been overly conservative about supplies at Isle of Grain and Bacton. Some sensitivity of the revenue driver values to alternative assumptions for supply, demand and capacity increment modelled would be beneficial.

Responses to the detailed questions are at Attachment 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

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## ATTACHMENT 1: CONSULTATION QUESTIONS

### CHAPTER 3: MODELLING APPROACH FOR THE SOUTH EAST REVENUE DRIVERS

**Question 1: Do you agree with NGG's proposed approach of introducing a 'banded' revenue driver to meet generic CCGT incremental capacity demand in the South East?**

We agree that a non exit point specific banded revenue driver will provide an appropriate balance between reflecting the uncertainty of the actual incremental capacity signalled and ensuring that NGG will be remunerated at an appropriate level. However, it is important to note that individual projects will have specific needs dependent upon the assets being installed. A key factor is pressure and it will be important that NGG commits to an ANOP at the time incremental capacity is triggered.

**Question 2: Do you agree with NGG's proposed approach of introducing a separate revenue driver to meet potential storage site demand for incremental capacity in the South East?**

We agree that setting revenue drivers that reflect the individual and aggregate storage capacity requirements is appropriate.

**Question 3: Do you agree with the proposed 50 GWh/day increments used in modelling the banded CCGT revenue driver?**

Given the size of one of the potential CCGT projects, it may be better to use an increment of 25GWh/day. This will avoid over-investment or the need to revisit the revenue driver should only the smallest project go ahead.

**Question 4: Do you agree with the network modelling approach adopted by NGG?**

We agree that it is important to identify interactive and non-interactive demands, although we share Ofgem's concern that greater transparency would be preferable. It would also be helpful to better understand the sensitivity of the modelling to different assumptions about demand. For instance, DC national assumptions based upon booked capacity rather than forecast 1 in 20 may be more reflective of actual demand and not susceptible to forecasting inaccuracy.

The document is silent on the extent and frequency of constraints. This is a key determinant of the balance between the amount of investment required and the feasibility of contractual solutions to meet the incremental capacity signal.

**Question 5: Do you agree with the data input modelling assumptions adopted by NGG?**

It appears to us that NGG has been too conservative. For instance, average Isle of Grain send-out over the past two years has been 18mcm, compared to NGG's assumed 10.9mcm. With declining UKCS supplies, we would expect year round LNG imports to be a growing element of UK supplies to balance supply and demand, with a volume of "base load" flow. Looking forward, more optimistic assumptions are appropriate. It is expected that Grain volumes will be increasing post 2015 and it would be a test of reasonableness for NGG to compare its current assumptions against what it expects the position in 2020 to be. This may help to identify whether the investment identified will be necessary on an enduring basis or simply to support offtakes for a short period. The pessimistic assumption is compounded by assumed minimum Bacton flows. Some form of probability analysis should be undertaken to determine the credibility of these coincident events.

**Question 6: Do you agree with the 400 mcm/day demand forecast assumption for modelling the storage site reinforcement requirements?**

We would like to see the impact on the required reinforcements that the 400mcm assumption drives compared to 350mcm as a proxy for requirements if fast cycle storage is not built.

**CHAPTER 4: COST ESTIMATION**

**Question 1: Do you agree that adopting the unit cost assumptions used by NGG in its TPCR4 rollover business plan submission is appropriate for deriving the revenue driver values?**

It is appropriate to base them on established costs, recognising that they may be updated following the conclusion of the RIIO-T1 process. An indication of the magnitude of any update would be welcome at an early stage.

**Question 2: Do you agree that it would be appropriate to incentivise NGG to seek a contractual solution, where feasible, to meet the South East incremental capacity signals?**

Where contractual solutions deliver material benefits to network users then there is a case for agreeing them. However, from a developer's perspective, this is an opaque process between NGG and Ofgem and reduces the certainty that capacity will be available when required under a range of supply and demand conditions. Arguably, the opportunity cost to the generator of not having capacity available outweighs the reduced investment costs reflected in tariffs. As NGG see little prospect that contractual solutions will be available in this specific case, it is better to rule out the option at this stage.