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1st October 2014

Dear James

**Consultation on changes needed to implement new arrangements for incremental gas transmission capacity (PARCAs)
August 2014**

We welcome the opportunity to respond to this consultation. The comments are provided on behalf of RWE Supply and Trading GmbH, RWE Generation UK plc and RWE Npower Group.

If approved, the Planning and Advanced Reservation of Capacity Agreement (PARCA) would introduce a new mechanism for Users to acquire both incremental and non-incremental, long-term System Entry and/or System Exit capacity. Following a decision on the alternative UNC Modification Proposals¹ that would implement PARCAs, there will be consequential changes required to a number of Capacity Methodology Release Statements and to NGG's Licence. It is therefore difficult to provide meaningful comments on the Licence elements of the PARCA package in isolation, without seeing the full suite of documents.

Furthermore, the contract between NGG and the capacity Reservation Party, which will reflect many of the policy and regulatory decisions taken in modifying the wider industry documents, is subject to industry consultation and has yet to be fully agreed.

A number of comments are set out below:

- We remain concerned about the risk capacity substitution can be vetoed late in the process. NGG may decide to meet some or all of the signalled capacity by substitution and this will determine the overall capacity requirement that forms the basis of their Planning application. PARCAs have been developed to recognise the impact of the Planning Act 2008 on the infrastructure delivery timescales of both NGG and the developer. We welcome the alignment of both Parties' project development timescales, together with a phased financial commitment as envisioned under PARCA and agree that this should give developers confidence to signal their long-term capacity requirements. However, Ofgem's ability to veto substitution at the point of Allocation, which could be up to five years after the initial signal was made, completely undermines this. We strongly believe that the veto should be exercised earlier in the process certainly before Phase 2 of the PARCA process and significant resources on both sides are committed;
- We require further clarity around the precise circumstances under which NGG will not be able to recover the Termination Amount. In particular, this is in respect of where NGG fails to obtain Development Consent Order for its infrastructure and the developer's project cannot proceed. A policy decision is important both for the Licence drafting and the final Contract terms;

¹ 0452V: Introduction of a Planning and Advanced Reservation of Capacity Agreement (PARCA) and 0465V: Introduction of a Planning and Advanced Reservation of Capacity Agreement (PARCA), Weighted Average PARCA Security

- Ofgem has suggested that the Termination Amount calculation could be included in the Price Control Financial Model. Our initial view is that this would reduce the transparency of the process and we think it would be better to keep it outside the PCFM;
- We agree with the proposed drafting that defines a fixed twenty-four month lead time related to the date of Allocation rather than relating it to the next 1st October. This provides additional flexibility;
- Our understanding is that the PARCA provides for up to 3 phases depending upon whether one or both Parties require to go through Planning, rather than automatically requiring three stages;

The PARCA arrangements have been developed to reduce regulatory and commercial uncertainty for developers. But, a number of key elements actually reduce the level of investment certainty as exemplified by the risk of a veto of capacity substitution.

If you require any additional information or wish to discuss any aspects further, please do not hesitate to contact me.

Yours sincerely

By email so unsigned

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