

James Thomson  
Office of Gas and Electricity Markets  
3<sup>rd</sup> Floor  
Cornerstone  
107 west Regent Street  
Glasgow  
G2 2BA

Your ref  
Name Charles Ruffell  
Phone +44 (0)1793 893983  
Mobile +44 (0)7989 493580  
E-Mail  
charles.ruffell@RWE.com

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Dear James

**Proposed licence modification of Special Licence Conditions 1A, 2A, 5F, 5G and 11C of National Grid Gas Transmission's Licence to implement the Planning and Advanced Reservation of Capacity Agreement  
October 2014**

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

PARCAs have been developed to recognise the impact of the Planning Act 2008 on the infrastructure delivery timescales of both NGGT and the shipper/developer and reduce regulatory and commercial uncertainty around signalling long-term capacity requirements. Ofgem has confirmed or clarified its position on a number of policy issues raised in the earlier consultation<sup>1</sup> which we generally welcome, in particular clarification that NGGT's recovery of the Termination Amount will be subject to industry consultation and regulatory oversight.

Our main concern remains the risk that a capacity substitution proposal can be vetoed late in the process. Where investment is required, and there is unsold capacity, NGGT may propose to meet some or all of the signalled capacity by substitution and this combination of Funded Incremental Capacity and substitution-based capacity will form the basis of their planning application. Our understanding is that should there be a material change to the content of the planning application, for instance where capacity from substitution is vetoed and the amount of Funded Incremental Capacity increases, then the planning application would need to be resubmitted with a consequent delay to capacity delivery timescales.

The end-to-end PARCA process may run up to 90 months. During Phase 1 (up to 6 months) of the PARCA process, there will be a requirement for NGGT to publish details of PARCA requests such that NTS users and Ofgem can consider them and challenge NGGT over capacity substitution proposals. Assessment and approval of the capacity substitution proposals will be based on compliance with NGGT's Capacity Substitution Methodology. Where NGGT complies with this Methodology and the substitution request is not vetoed it is not clear to us the circumstances under which Ofgem could subsequently veto the request at the end of Phase 2 (up to 60 months). This appears to be inconsistent with the normal substitution approvals process. In our view, absent a non-veto at Phase 1, it is unlikely that NGGT would progress with a planning application that included substituted capacity. Therefore, an unequivocal decision on the capacity substitution proposal is surely needed at the end of Phase 1 and, if not, the reasons need to be explained.

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<sup>1</sup> Consultation on changes needed to implement new arrangements for incremental gas transmission capacity (PARCAs), August 2014

We believe that Ofgem has not fully recognised the level of financial commitment that the shipper/developer will make during this process and do not agree that “decoupling our capacity substitution decision from firm financial commitment being made for capacity would unfairly shift risk onto consumers”. These commitments include both those associated with the PARCA arrangements and those from the shipper/developer project itself.

- PARCA Phase 1 - NGGT’s costs of completing the initial assessment are reimbursed by the shipper/developer;
- PARCA Phase 2 - a phased financial commitment to NGGT from the shipper/developer, together with obligations on them to demonstrate progress of their own project. Phase 2 covers activities required by either or both parties to secure planning approval for their project. It is only after these approvals have been granted and upon confirmation from the shipper/developer that NGGT will move into Phase 3;
- PARCA Phase 3 - NGGT will allocate the capacity and undertake physical works to deliver that capacity, with full user commitment triggered at the point of allocation.
- Taking a project through planning represents a significant financial commitment in its own right and is not risk free in terms of the final planning authority decision. Ofgem has correctly identified the planning process itself as a risk faced by the shipper/developer, but we believe that it is not comparable to the regulatory created by the late veto of a capacity substitution proposal.
- Developing a compliant application is, however, largely within the control of the shipper/developer rather than the substitution risk that sits with Ofgem and NGGT. The shipper/developer also carries the risk on its project of the outcome of NGGT’s planning application.

Ofgem has provided some welcome clarification around the PARCA process and the licence drafting required to implement the arrangements. We think that by committing after Phase 1 to the capacity substitution proposal, Ofgem will provide clarity for NGGT’s planning application and could remove one critical risk faced by shippers/developers and provide additional certainty that NTS capacity will be delivered in line with their own project completion timescales.

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

Charles Ruffell  
RWE Supply & Trading GmbH  
Commercial Asset Optimisation UK