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**The Entry Capacity Transfer and Trade Methodology Statement
May 2007**

Dear Andrew,

We welcome the opportunity to comment on the issues raised in this consultation document. This response reflects the views of RWE npower and the UK based business of RWE Trading GmbH.

The statement sets out the methodology that National Grid will use to calculate exchange rates to facilitate the transfer of entry capacity between entry points. As drafted, a common methodology will apply both to transfers of unsold capacity and trades of sold capacity. The methodology will only apply in the constrained period as a different capacity substitution mechanism has been proposed for the unconstrained period. Our comments relate specifically to this methodology statement, although we do have more general concerns with the transfer and trade concepts themselves, particularly the incentives they create on shipper bidding behaviour.

The methodology has been developed based upon National Grid's interpretation of the anticipated licence requirements related to ensuring trades and transfers are compatible with the physical capability of the NTS; and avoiding undue increases in costs, including buy-back costs, arising from capacity trades and transfers. National Grid has proposed a step-wise methodology that assesses "primary" risk based on TBE flows with "secondary" risk based on a 1:1 exchange rate. If there is no incremental risk, the exchange rate will be accepted, but if not a different exchange rate or ASEP will be considered. National Grid accepts that avoiding undue increases in costs is the most significant constraint on the capacity exchange rate and we wonder whether National Grid has interpreted this requirement too narrowly.

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As National Grid is looking at buy-back risk, it has modelled expected flows under average conditions for each month. However, it is not clear to us why expected physical flows have been used instead of baselines and peak flows, as this would be more consistent with the price control that set baselines, buy-back risk and the cost of capital as a package.

Although the methodology results in the transferred capacity coming from the ASEP with the most favourable exchange rate, theoretically significantly more capacity will be required from a donor to create one unit of capacity at the donor. Apart from being inefficient, and in conflict with SLC A11 1(a) of the GT licence, the consequence of a reduction in obligated capacity at the donor may, absent reform to the interruptible arrangements, lead to gas stranded offshore when physically there is capability to deliver it. We would support capping the exchange rates but as exchange rates are dynamic and flex as flows change, we would need to see more analysis of typical ranges to determine the level of the cap.

Meeting the expected licence obligations has led to a protracted and iterative process that only produces indicative exchange rates ex ante. We appreciate that National Grid has worked with the industry over an extended period of time to develop options and explain the factors that influence the calculation of transfer rates. These options have included zonal and national models. However, this proposed methodology is too complex and the detailed calculation of transfer rates is far from clear as it is based upon supply/demand scenarios, assumptions about zonal network capabilities and a risk assessment model. The ability to transfer sold and unsold capacity between ASEPs represents a fundamental shift in the entry capacity regime and we believe that the industry needs to develop a greater understanding about the fundamentals of the calculation process as well as the rationale for the underlying inputs, such as baselines versus expected flows, before we can endorse this methodology statement.

We hope these views are helpful and if you wish to discuss them further please contact Steve Rose on 01793 892068 or myself on 01793 893983.

Yours sincerely,

Charles Ruffell
Economic Regulation