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Secretary, Modification Panel  
Joint Office

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**Urgent Modification Proposal 0150: Introduction of the AMTSEC Auction**  
**Urgent Modification Proposal 0150A: Introduction of Unsold Entry Capacity Transfers**

Dear Julian

Thank you for inviting us to comment on these urgent modification proposals, which we are considering together.

RWE npower does not support implementation of urgent modification proposal 0150.  
RWE npower offers its conditional support for implementation of urgent modification proposal 0150A.

It is difficult to assess whether either of these proposals fully meets the objectives that Ofgem currently anticipates introducing into the NG NTS licence as we are yet to see final detailed drafting. Furthermore, the draft Entry Capacity Transfer and Trade Methodology Statement (the methodology statement) has yet to be approved. Without these two key elements of the obligation to facilitate capacity transfers and trades in place, we question whether it is appropriate to make changes to the UNC in anticipation of such changes being made.

In addition, we believe that it is unacceptable that such amendments were raised so close to the AMSEC auctions. They introduce considerable uncertainty as to the nature of the post-auction commercial regime. Increasing the perception of scarce capacity, combined with reduced baselines at certain ASEPs, may create bidding behaviour that leads to prices that do not reflect the true value of the capacity.

We do, however, support the principle of optimising the allocation of existing capacity and offer the following comments on each of the proposals:

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### *Urgent Modification Proposal 0150: Introduction of the AMTSEC Auction*

The National Grid proposal is too complex and, in spite of methodology statement currently out for consultation, the calculation of transfer rates is far from clear. In part, this arises because their proposal facilitates transfers between ASEPs that are remote from each other. While this offers more flexibility than the E.ON UK proposal, absent a capping mechanism, we believe that it would be inefficient to introduce a mechanism that led to transfer rates that required large volumes of capacity to be transferred resulting in minimal levels of additional capacity at the donor ASEP. This is clearly inconsistent with SLC A11 1(a).

The position is further complicated by National Grid's interpretation of the anticipated licence requirement not to unduly change its risk position as a result of transferring capacity. This leads to a protracted and iterative process that only supports indicative transfer rates ex ante which is unsatisfactory in our view. Although also a question for the methodology statement, we would be interested in Ofgem's views as to whether expected physical flows rather than baselines should be used in the calculation of nodal maxima and transfer rates and how National Grid's assumptions fit with the price control package.

### *Urgent Modification Proposal 0150A: Introduction of Unsold Entry Capacity Transfers*

The E.ON UK proposal is more straightforward and provides greater certainty through setting fixed ex ante transfer rates in a 5<sup>th</sup> round with known parameters. Logistically, how the date of such a 5<sup>th</sup> round fits in with the current AMSEC timetable needs to be explained further. Limiting transfers to intra-zonal transfers at 1:1 rate in the first instance also avoids the potential to set inefficient transfer rates, but it does place Users that deliver gas to ASEPs within zones without donor ASEPs at a potential competitive disadvantage as they will be unable to access unsold capacity.

We also have a concern about the extent to which National Grid can meet the commitments implied by the 1:1 intra-zonal rates and the extent to which the nodal maxima are driven by system-wide rather than zonal conditions. National Grid could mitigate their risk by setting very low zonal maxima, which, in view of their anticipated Licence obligations regarding maintenance of risk levels, may be a legitimate option but would limit the amount of available unsold capacity. Conversely, National Grid could facilitate the 1:1 transfers without referencing their ability to physically honour those commitments. This would increase buy-back risk for both National Grid and Users. Our support is conditional on these issues being resolved satisfactorily.

In addition to this, we require further clarity on how the mechanism is proposed to be applied to auctions after the current AMSEC auctions. The drafting in the proposal is not clear to us in this regard. Is the intention to introduce a 5<sup>th</sup> round based on the intra-zonal mechanism or will each round be based on intra-zonal allocations? If so, will ASEP-specific bids be satisfied first, with any unsatisfied demand met by zonal transfers from ASEPs with spare capacity? More fundamentally, it is not clear that these radical reforms of the existing AMSEC and RMSEC auction mechanisms should be considered within the scope of this urgent modification proposal.

Notwithstanding these comments, our initial view is that the transfer mechanism should not be applied to the DSEC auctions at all. National Grid as System Operator should be considering capacity availability on a system-wide basis based upon expected flows in close to real time in order to determine capacity to be released in the daily processes. It will be unduly restrictive to limit such capacity release on a zonal basis.

We hope these views are helpful and would be happy to discuss matters further.

Yours sincerely

*By Email So Unsigned*

Charles Ruffell  
Economic Regulation