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Urgent Modification Proposal 0128: Amendment of Entry Capacity Baselines

Dear Julian

Thank you for inviting us to comment on this urgent modification proposal.

RWE npower does not support implementation of urgent modification proposal 0128.

Although National Grid (NG) has accepted in principle Ofgem's final transmission owner price control proposals, we do not agree that the revised ASEP baseline quantities should be offered for sale in the forthcoming AMSEC and RMSEC auctions.

We understand that in setting the final baselines, Ofgem has adopted a modelling approach based upon practical physical maximum rather than theoretical physical maximum and that this inevitably changes baselines. While accepting that there is little that can be done to challenge the proposed baselines, other than raise concerns during the formal licence consultation, we are concerned that at some ASEPs the modelling approach has significantly reduced baselines from their current levels. The process for the finalisation of the baselines between the September TPCR Updated Proposals and December's Final Proposals is far from clear and in particular Ofgem's reasoning behind the setting of the final numbers has not been explained fully. We strongly believe that the current baselines should prevail until the industry has had time to consider the implications of the changes. In our view, there was a reasonable expectation that any baseline changes would only apply to auctions held within the new price control period from April 2007 once NGG NTS's new licence came into force.

In particular, we have specific concerns about the Teesside baselines, which have been reduced from 761GWh/day currently to 361GWh/day. Historic flows (shown in the attached graph) have typically been close to this new baseline and it is not clear how these existing flows and the new Excelerate LNG will be accommodated. By creating what appears to be an

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artificial shortage of capacity may result in certain supplies facing uneconomic entry costs particularly in the winter months and gas may not be delivered into the GB market.

From our perspective, such major changes to the commercial regime associated with the period price control review will serve to increase the perception of market and regulatory risk. This could undermine potential investment decisions in both the gas and electricity markets at a time when there is a major requirement for new assets in these markets.

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

Yours sincerely

By Email So Unsigned

Charles Ruffell
Economic Regulation

