

Mr Julian Majdanski
Secretary, Modification Panel
Joint Office

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Urgent Modification Proposal 0156: Transfer and Trading of Capacity between ASEPs
Urgent Modification Proposal 0151A: Transfer and Trading of Capacity between ASEPs

Dear Julian

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

This response reflects the views of RWE npower and the UK based business of RWE Trading GmbH. We support implementation of urgent modification 0156A and do not support implementation of urgent modification proposal 0156.

The single transfer and trade mechanism that is at the heart of each proposal is an improvement over the separate processes contained in earlier proposals^{1, 2}. Focusing the allocation process initially on within-zone transfers at 1:1 transfer rates simplifies the mechanism and minimises capacity destruction. Allowing out of zone transfers only where there is uncommitted zonal capability remaining after the within-zone process is more restrictive, but we support the approach. We recognise that the requirement to offer ex ante transfer rates for multiple possible permutations of out of zone transfers does add complexity and accept that transfer rates will be volume-dependent in some cases.

While we endorse the new surrender process, we are unclear about one particular aspect. This relates to whether capacity that has been surrendered by a number of Users will subsequently be allocated on a pro rata or time-stamped basis. In our view, pro rating could lead to a number of low value, small quantity trades which will add to the administrative burden for both National Grid and Users and it would be preferable to allocate trades whole where possible.

We agree with E.ON UK that having two auctions, the second with two rounds, will improve

¹ Urgent Modification Proposal 0150: Introduction of the AMTSEC Auction, Urgent Modification Proposal 0150A: Introduction of Unsold Entry Capacity Transfers

² Urgent Modification Proposal 0151/0151A: Transfers of Sold Capacity between ASEPs

price discovery and allow Users more opportunity to refine their capacity requirements closer to the winter period. The ability to surrender capacity ahead of the later auction would also have been welcome for the same reasons. If this could be accommodated within the proposed timetable then it is a feature that we would support.

A fundamental difference between these proposals and earlier ones is National Grid's approach to assessing changes in its risk profile as a result of capacity trades and transfers, following Ofgem's clarification letter³. We understand that an interpretation of "no material change" in risk profile will be contained in the revised Entry Capacity Transfer and Trade Methodology Statement. However, it will affect the way in which National Grid determine a number of the key parameters in the process, including the zone allocation maxima and ASEP merit order. It would have been helpful to consider this Statement in parallel with these modification proposals.

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

Yours sincerely

By Email So Unsigned

Charles Ruffell
Economic Regulation

³ National Grid Gas National Transmission System Entry Capacity: Development of the Regime ahead of winter 2007/08 19th June 2007