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Secretary, Modification Panel
Joint Office

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Modification Proposal 0187/187A: Alteration to the RMSEC Auction to Accommodate Transfer and Trade of Capacity between ASEPs

Dear Julian

Thank you for inviting us to comment on this modification proposal. This response is provided on behalf of the RWE group of companies, including RWE Npower plc and RWE Trading GmbH. We support for implementation of modification proposal 0187 but do not support implementation of 0187A.

We support the general approach proposed in 0187 and mirrored in 0187A and agree that Transfer and Trades should be incorporated within the RMSEC process. However, we prefer the allocation mechanism set out under 0187 as we believe that the “surrender price cap” is an important feature required to limit unwelcome pricing effects, where capacity prices would otherwise be set in relation to constrained ASEPs. An associated benefit of the approach is that it restricts the potential incentive for buying capacity speculatively in order to exploit arbitrage opportunities between low and high priced ASEPs. We do not see this as being the intent of Transfer and Trades, which ought to be about allowing shippers to effectively and efficiently manage their risk, rather than to provide a capacity trading opportunity per se.

Further, the allocation of surrendered capacity ahead of unsold, as proposed under 0187 rather than based on a pure price stack with a mix of surrendered and unsold, will maximise the quantity of unsold capacity subsequently available for the daily auction.

We are concerned about the absence of published ex-ante exchange rates. There has been evidence and strong arguments by National Grid that, due to the iterative nature of the allocation process, ex-post exchange rates may lead to an increased capacity allocation. However, weighed against this is the reduction in transparency and certainty for bidders in the auction and

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the arguments are finely balanced. Based on the arguments put forward by National Grid we can see that applying ex-post exchange rates may improve the efficiency of the allocation process.

A final point is that although incorporating Transfer and Trade into the RMSEC auction has necessitated extending the auction timetable, we welcome National Grid's commitment to seek to reduce the time period and move the combined auction process towards the end of the month. This would better align the timings with when shippers have a firmer view of their capacity requirements for the upcoming month.

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

Yours sincerely

By Email So Unsigned

Charles Ruffell
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