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### **Modification Proposals 0230 & 230A: Amendment to the QSEC and AMSEC Auction Timetables**

Dear John,

RWE npower and RWE Supply and Trading GmbH support both of the above Proposals. Of the two Proposals our preference is for 230A as we believe this allows for the changes to be implemented in a more leisurely fashion and retains the right of shippers to secure capacity under the current auction timescales throughout 2009.

We see merit in the intentions of both Proposals to bring forward the QSEC auctions to March and push back the AMSEC auctions to June each year. This will, amongst other things, allow signals received through the QSEC auctions greater time to feed into the TBE consultation which promotes the efficient and economic operation of the NTS. It will also allow the results of the AMSEC auctions to be fully reflected in the October TO Commodity Charge which should help achieve greater stability in setting this charge for a full twelve month period.

Both Proposals cite the fact that bringing forward the QSEC auction date would enable utilisation of the final summer build period prior to delivery of Incremental NTS Entry Capacity for construction activities, thus facilitating the relevant objective of efficient and economic operation of the NTS by reducing the risk of gas being stranded offshore and the risk of investment related buybacks. Whilst this may be true, our recollection is that during negotiations leading up to National Grid's current price control National Grid was seeking a default lead time of 48 months for incremental entry investment in order to enable utilisation of a fourth summer build period as QSEC, but that Ofgem were not persuaded by this argument and instead set a default lead time of 42 months.

Whilst the default lead time will not be changed by these Proposals, bringing forward the QSEC auction date to March achieves the same effect of enabling National Grid to utilise a fourth summer build period for construction activities. National Grid is therefore more likely to achieve lead times less than the default 42 months under these Proposals than it otherwise would be, which in turn makes it even less likely that National Grid will have to exercise any of the 7200 GWh of entry lead time deferment volume specified in its licence. This could be a concern as any unused entry lead time deferment volume will have a monetary value. Should none of the 7200 GWh available to National Grid be used, this will result

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in a £36m increase in its allowed revenue from the start of its next price control.

In summary therefore, whilst the Proposals are likely to facilitate the relevant objective of efficient and economic operation of the NTS in doing so they would also seem to afford National Grid with potential opportunities to achieve windfall gains under its price control, and we would welcome Ofgem's observations regarding this issue in their decision letter.

Yours sincerely,

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Economic Regulation

<sup>\*</sup> sent by e-mail and therefore not signed