RWE npower

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Modification Proposals 230 & 230AV: Amendment to the QSEC and AMSEC Auction Timetables

Dear John,

RWE npower and RWE Supply and Trading GmbH support Proposal 230 but no longer support E.On's alternative Proposal 230AV following its variation.

In our previous response we supported both 230 and 230A, expressing a preference for 230A, as we believed this would allow for changes to be implemented in a more leisurely fashion and would retain the right of shippers to secure capacity under the current auction timescales throughout 2009.

However since the variation to 230A we are concerned that under AMSEC auctions from 2010 onwards shippers would no longer have the opportunity to secure entry capacity for two consecutive winters, whereas under 230 there is no change to the 24 month period which shippers can be bid for entry capacity in the AMSEC auctions.

Whilst we recognise 230AV would eliminate any overlap period for entry capacity sold in QSEC and subsequent AMSEC auctions we do not consider a 12 month overlap (as proposed under 230) to be a significant problem, even were different reserve prices to apply. In our opinion any problem this may present is likely to be offset in order of magnitude by resource problems (both shipper and transporter) that may arise from holding AMSEC and QSEC auctions over consecutive months, as proposed under 230AV.

We continue to believe that 230 promotes the efficient and economic operation of the NTS by allowing signals received through the QSEC auctions greater time to feed into the TBE consultation and by enabling National Grid to utilise the final summer build period prior to delivery of incremental entry capacity.

We also continue to note that bringing forward the QSEC auction date to March makes it more likely that National Grid can achieve entry lead times less than the default 42 months agreed under their price control. This lessens the likelihood of their utilising the entry capacity permits specified in their price control and consequently increases the likelihood of their achieving maximum residual value for these permits when their current price control expires. We find this somewhat

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galling, particularly as we have recently become aware of measures National Grid intend to take in relation to the implementation of enduring exit reform which could be argued extend their available lead time for incremental exit capacity delivery beyond the default 36 months agreed under their price control. Exit capacity permits have the same maximum residual value as entry (£36m) and so National Grid's reduction in exposure to incremental exit capacity buy back risk and increased potential to maximise residual entry and exit capacity permit value is not insubstantial.

Yours sincerely,

Steve Rose*
Economic Regulation

* sent by e-mail therefore not signed