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Modification Proposal 0285: "Use it or lose it" (UIOLI) Interruptible Capacity only to be released when there is at most 10% unsold firm entry capacity

Dear Bob,

We welcome the opportunity to comment on this modification proposal. This response is provided on behalf of RWE npower and RWE Supply and Trading GmbH. We support implementation of this Modification Proposal.

We share industry concerns about the year-on-year increases in the level and volatility of the TO Entry Commodity Charge. The increase is largely caused by the requirement to collect significant amounts of under-recovered income from entry capacity auctions. In part this has arisen as a consequence of the volume of discounted daily entry capacity made available on both a firm and interruptible basis.

As a general approach, we support the principle embodied in the capacity regime design that capacity should be released and be available to purchase over different time periods, reflecting individual User requirements. One way of retaining this flexibility, while reducing the entry revenue shortfall to be collected by the TO Entry Commodity Charge, would be to place a limit on the circumstances under which Daily Interruptible NTS Entry Capacity is released. This can be achieved indirectly by introducing a positive reserve price or directly by reducing the quantities of entry capacity released with a zero reserve price. Modification Proposal 0285 is based upon limiting the quantity, although it does also contemplate continuing to release the UIOLI as now but to put a reserve price on the UIOLI above the present zero value as an alternative way forward.

On balance, our preference would be restricting the availability of interruptible entry capacity as set out in Modification Proposal 0285. Setting a trigger introduces a proxy for the risk of interruption by reducing the occasions on which interruptible NTS capacity would be released. This may in turn encourage further firm bookings.

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For the alternative approach, it is not clear how an appropriate reserve price could be set to differentiate between the firm and interruptible products in order to reflect the risk of interruption. Retaining the same UIOLI as now, albeit released at a positive reserve price, may not go as far in meeting the objective of reducing the entry capacity revenue shortfall as the option of restricting the availability of interruptible capacity as this ensures an undiscounted price is paid for all capacity sold up to the trigger.

Implementation should also deliver wider competition benefits, including improving the distribution of charges between Users who acquire entry capacity over different timescales and stimulating secondary capacity trading because there is a risk that interruptible capacity may not be available.

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

Yours sincerely

By Email So Unsigned

Jill Brown
Economic Regulation