

Representation

Draft Modification Report

0350 - Combining the NTS entry capacity and exit capacity credit checks

Consultation close out date: 11 March 2011

Respond to: enquiries@gasgovernance.co.uk

Organisation: **RWE Npower plc / RWE Supply & Trading GmbH**

Representative: Charles Ruffell

Date of Representation: 10 March 2011

Do you support or oppose implementation?

Neutral * *delete as appropriate*

Please summarise (in one paragraph) the key reason(s) for your support/opposition.

The modification proposal represents a modest improvement over the current arrangements, closing the loophole where a single-entry point user, having committed to Quarterly System Entry Capacity through long term auctions puts insufficient credit in place and effectively defers capacity delivery at no cost to them. However, the risk to the wider community of underwriting the balance of any costs following termination remains and is only mitigated to the extent that NGG can sell the entry capacity. The ability to sell the complete strip of capacity rights rather than just quarterly rights is another benefit of this proposal as it may facilitate the sale of an associated project as a viable commercial opportunity. Strengthening the credit arrangements may provide an incentive on Users to bid their actual requirements in auctions, potentially increasing the efficiency of auctions by minimising the risk of speculative bidding.

Are there any new or additional issues that you believe should be recorded in the Modification Report?

The modification proposal provides a partial solution to the underlying issues that arise as a consequence of: 1) the revenue driver mechanism and entry capacity incentive framework within the NGG transporter licence; and 2) the absence of cost-reflective liabilities on users triggering incremental entry capacity. These two issues should be considered under RIIO-T1.

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Version 1.0

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Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

c) Efficient discharge of the licensee's obligations.

Reducing speculative bidding should increase the accuracy of investment signals for the auctions.

d) Securing of effective competition:

(i) between relevant shippers;

(ii) between relevant suppliers; and/or

(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.

There is still inappropriate risk sharing between existing Shippers and new single entry point shippers in the case of default. This does not help to secure competition as it represents a de facto cross-subsidy.

f) Promotion of efficiency in the implementation and administration of the Code

The benefit of replacing two processes with a single process is marginal.

Impacts and Costs:

What analysis, development and ongoing costs would you face if this modification were implemented?

There is the prospect that some shippers may need to lodge additional credit cover.

Implementation:

What lead-time would you wish to see prior to this modification being implemented, and why?

We agree that if the modification proposal is implemented, it should not affect credit in place for the 2010/11 gas year and should be consistent with the revised exit capacity arrangements from October 2012.

Legal Text:

Are you satisfied that the suggested legal text will deliver the intent of the modification?

Yes and the proposed changes also add further clarity to the consequences associated with a breach of the UNC.

Is there anything further you wish to be taken into account?

Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise.

No.