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16<sup>th</sup> March, 2007

**Notice under section 23 (3) of the Gas Act 1986 – Revised Baselines for System Entry Capacity  
 February 2007**

Dear Bob,

We welcome the opportunity to comment on the issues raised in this proposed licence modification. This response reflects the views of RWE npower and the UK based business of RWE Trading GmbH.

The proposed modification will introduce revised baseline entry capacity levels into the National Grid Gas NTS gas transporter licence that will be effective from 1<sup>st</sup> April 2007. Urgent Modification Proposal 0128<sup>1</sup> and Urgent Modification Proposal 0129<sup>2</sup> were raised, in essence, so that entry capacity auctions scheduled for March 2007 would be based on these updated baselines. In our response to these documents we commented on the process used to derive the baselines and the level of baselines themselves and we still have concerns.

In terms of the derivation of the final numbers, the process between the September Transmission Price Control Review Updated Proposals and December's Final Proposals was far from clear and in particular Ofgem's reasoning behind the setting of the final numbers has yet to be satisfactorily explained. The lack of transparency reduces confidence in the baselines and increases the perception of regulatory risk, which may serve to undermine shipper's willingness to make long-term capacity commitments or undertake investments. It also blurs the obligations on National Grid Gas NTS regarding their obligations to make capacity available and whether, within the context of the overall Price Control package, there is a reasonable balance of risk/reward for National Grid Gas NTS.

We also have concerns about the baselines at specific ASEPs and the disproportionate effect that the reduction in baselines, constrained by levels of capacity already sold, has had. In some cases, the baseline is set below the level of actual physical flows seen historically. In addition,

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<sup>1</sup> Amendment of Entry Capacity Baselines

<sup>2</sup> Delay to the 2007 AMSEC Auctions

it is unclear how any capacity signalled above the new baselines, but below the physical capability of an entry point will be treated and remunerated.

In conclusion, we remain dissatisfied with the proposed baselines for System Entry Capacity and uncertain that this aspect of the package of incentives and remuneration for National Grid Gas NTS represents an appropriate risk-reward balance.

We hope these views are helpful and if you wish to discuss them further please contact me on 01793 893983.

Yours sincerely,

Charles Ruffell  
**Economic Regulation**