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Discussion Document NTS GCD05 - Options for an SO Commodity Charge for NTS Storage Facilities

Dear Debra,

RWE npower welcomes the opportunity to comment on the above and does so on behalf of all its licensed gas businesses and the GB interests of RWE Trading GmbH.

The question of whether it is appropriate to charge an SO Commodity Charge on gas flows in and out of storage facilities is one which has been consulted upon and debated over a number of years. Throughout this time we have consistently supported applying an SO Commodity Charge at storage facilities provided it can be demonstrated that such a charge is cost reflective and takes account of any differences in the nature of system operation cost imposed on the NTS by storage facilities compared to other NTS entry and exit flows.

Following Ofgem's rejection of the GCM 03 in January 2007 National Grid has undertaken further analysis of the costs imposed on the system by storage facilities, which was presented at a number of recent TCMF meetings and which is summarised in this discussion paper.

Broadly speaking that analysis concluded that no additional compression is utilised when taking account of gas flowing in and out of storage compared to flowing straight through the system. Also storage facilities do not appear to be relevant drivers for the unaccounted for gas, Ops Margins, Constrained LNG and Deemed Interruption elements of allowed SO costs.

The analysis undertaken by National Grid appears, on the face of it, to be robust and as these components (excluding SO incentive performance and any carry over of revenue over/under recovery) make up the bulk of the allowed SO costs, in our opinion there does not seem to be a convincing case for applying an SO Commodity Charge at storage facilities.

Whilst dogmatically it could be argued that an SO Commodity Charge should be levied on storage facilities so as to recover the internal cost element of allowed SO costs and to ensure cost reflectivity is achieved, in our opinion this would be

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undesirable. This is because the likely costs that would be incurred by storage

operators, transporters and shippers in setting up a mechanism for applying such a charge may well outweigh the revenue collected from it. Also, analysis presented by National Grid suggests that applying such a charge (and thereby reducing the standard SO Commodity Charge) is likely to disadvantage smaller users, which is not consistent with the relevant objective of facilitating effective competition between gas shippers and suppliers.

Our responses to the specific questions posed in the discussion document are detailed below, but in summary we do not now believe it is appropriate to apply an SO Commodity Charge to gas storage facilities.

Q1. Should storage continue to avoid an SO commodity charge?

Yes. National Grid have demonstrated to our satisfaction that the bulk of the allowed SO costs are not driven by storage flows.

Q2. Which SO costs should be included within an SO Commodity Charge?

We do not believe an SO Commodity Charge should apply at storage facilities. However, to the extent one did it would seem appropriate only to include National Grid's internal costs, as all other elements of SO costs do not appear to be driven by storage flows.

Q3. Should the charge apply to physical or commercial flows?

If a charge were to be applied to recover a share of National Grid's internal costs it would seem appropriate to levy such a charge on commercial flows. This is because it is simpler to levy a charge on commercial flows and also because the majority of internal costs are fixed and would not increase with either an increase or decrease in storage facility numbers or utilisation.

Q4. If a charge were based on physical or commercial flows what are the estimated systems costs to Users and industry? Please give details for the two possibilities?

We assume that introducing an SO Commodity charge at storage facilities, whether on physical or commercial flows, would necessitate the creation of another invoice charge code. Incorporating such a charge into our gas management validation and settlement systems is expected to cost in the region of £10 - 25k, depending on the nature of the change.

If such a charge were to be based on physical flows then transporters and storage operators are likely to incur costs in developing a methodology and an automated process for apportioning actual flows based on commercial storage nominations. To the extent we as a storage user needed to record our allocated share of that days actual flow such that we can pay a charge based on this, we would expect costs to be incurred in excess of those quoted above. At this stage however, it is difficult to approximate what these might be.

Q5. Would it be unduly discriminatory to have a different commodity charge for storage Users?

Not if such a charge truly reflected the costs imposed on the system by storage users. Similarly it would not be unduly discriminatory if no commodity charge were applied to storage users providing this was justifiable, which we believe it is.

Q6. Are there any other possible approaches or issues that have not been discussed in the discussion document but warrant further consideration?

We are not aware of any.

Yours sincerely,

Steve Rose
Economic Regulation

Sent by e-mail and therefore not signed