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**NTS GCD 07: Optional NTS Commodity Tariff
November 2009**

Dear Debra,

We welcome the opportunity to comment on the issues raised in this pricing discussion document. This response is provided on behalf of the RWE group of companies, including RWE Npower plc and RWE Supply and Trading GmbH.

The current shorthaul tariff has been in place for over 10 years and so it is appropriate to review it now in light of market developments and cost changes over that time so as to ensure it remains consistent with the relevant objectives. It is important nevertheless to ensure that in doing so the principle behind the charge is not lost; namely to ensure that NTS exit connection remains worthwhile at exit points close to entry facilities, as this will lessen the likelihood of NTS exit connections bypassing the system thus reducing the benefit to the industry as a whole.

Our responses to the questions raised in the document are set out in Attachment 1 below.

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

Yours sincerely,

By Email so unsigned

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Attachment 1: Questions for Discussion

Q1. Do respondents consider the cost assignment under methodology option one or option two, to be most consistent with the relevant objectives? Do the methodologies;
o Reflect the costs incurred by the licensee?
o Take account of developments in the transportation business?
o Facilitate effective competition?

Both Options 1 & 2 could reasonably be argued to be consistent with the relevant objectives. Under Option 1 the basis for cost reflectivity is assessed against the cost of building a dedicated pipeline of NTS specification between an entry and exit point, whereas under Option 2 it is assessed against the costs the system operator incurs in making gas available at the exit point.

In both cases effective competition is facilitated by discouraging NTS bypass thus ensuring greater network efficiency, utilisation of any spare cost and the potential for greater supply flexibility through increased sources of demand side response.

Both options, and the issues common to both options, take account of developments in the transportation business. However, it could be said that following the introduction of separate TO and SO price controls in 2002, Option 2 best takes account of developments in the transportation business.

Q2. Do respondents have any views on the appropriateness of the costs and parameters used in the derivation of the tariff under option one? Specifically;
o The connection cost approach?
o The annuitisation period; 10 years, 45 years or other?
o The load factor?

Whilst the capital cost estimate of £1m per connection used in Option 1 may be consistent with the Connection Charging Statement we believe this over estimates the typical cost of land, labour and materials costs we would expect to be incurred in establishing and ROV connection. It is noticeable that most of the connecting pipelines between the NTS and new exit points have been built by the developer as opposed to National Grid, which suggests National Grid's connection costs are "a typical" when compared to those faced by developers/shippers.

We agree that when trying to estimate the cost of building a dedicated line of NTS specification it is appropriate to use an annuitisation factor of 45 years as this is consistent with the period used for depreciation of NTS pipelines in National Grid's price control.

In order to avoid undue complexity in the shorthaul charging methodology it is necessary to base charges on a single load factor. We agree that such a load factor should be high to reflect the fact that sites which have an economic incentive to bypass are likely to derive this incentive partly from having a load factor significantly higher than the NTS system average load factor. In this respect the current 75% load factor still seems appropriate.

Q3. Do respondents have any views on the appropriateness of the costs and parameters used in the derivation of the tariff under option two? Specifically;
o Whether the minimum cost should be based on a connection cost approach or a proportion of the SO costs related to short-haul?
o Whether the SO costs associated with short-haul (34% for the indicative charges) should be set on an annual basis or fixed, based on a long term trend?

When considering the shorthaul tariff from the perspective of the relevant SO costs incurred whilst it seems logical to derive a distance based commodity price function using the NTS peak flow distance (Option 2a) we do not believe this is a credible option in its own right. Option 2a will significantly reduce the benefits to the industry resulting from incentivising NTS connection (rather than bypass) and could disproportionately affect the NTS SO Exit Commodity Charge by comparison with other options. It may also potentially breach EU Regulations.

In our opinion the shorthaul tariff should be based either on the avoided costs of NTS bypass or the relevant SO costs, not on a hybrid of both these approaches. To this extent we favour Option 2d over Options 2B and 2C.

We agree that the unaccounted for gas and internal cost elements of SO costs are appropriate for deriving shorthaul. We had hoped National Grid would provide historic information on what percentage of SO costs were associated with these two elements over the years, and in the absence of such data we are unable to say whether the SO costs associated with shorthaul should be set annually or fixed based on a long term trend. However from a pure cost reflectivity perspective an annual review seems most appropriate.

Q4: Do respondents have any views on the application of the methodology?

Specific comments on the following are requested:

o Distance from the exit point to the ASEP – in the case of ASEPs with more than one SEP is it appropriate to measure the distance to the nearest SEP?

o Load factor – is it appropriate to use a system load factor or an exit point load factor?

o Minimum charge – should there remain a minimum charge? If so, what level should this be set at? Should this be related to the exit point capacity (EPC)?

o Annual updating of charge – should the charge be updated in parallel with other transportation tariffs?

o Application to multiple exit points from a single entry point – do respondents agree that the present default allocation rule should apply when the input allocations are below the output allocations?

o Application at storage exit points – do respondents agree that the ‘short-haul’ tariff should not be applicable at storage exit points?

o Do respondents agree that the charge should only be applicable to the exit points that are connected between an ASEP and the next downstream compressor?

We agree that in light of developments in the transportation business resulting in a situation where certain SEPs within an ASEP are now located some distance apart, it is appropriate to base the distance used in the shorthaul calculation on the distance to the closest SEP not the mid point distance between SEPs.

Were the shorthaul tariff to be based on an approximation of NTS bypass costs we believe it would be appropriate to adopt a standard approximation of the likely NTS load factor (rather than an individual exit point load factor) to determine the shorthaul tariff. However, if the shorthaul tariff were to be based on an allocation of SO costs we believe it would be appropriate to use a system average load factor.

We note that National Grid state in a footnote on page 3 that the Exit Point Capacity will be defined within the UNC as the Baseline Exit Capacity once the enduring exit regime takes effect. This raises the question of how new exit points that do not have a baseline but which secure Enduring NTS Exit Capacity will be treated and what capacity figure is used at common DC exit points serving multiple sites e.g. St Fergus, Teesside, Thornton Curtis.

National Grid's systems already incorporate a minimum capacity and commodity charge of 0.0001 p/kWh and this will act as default minimum charge in the event either methodology were to derive a charge lower than this. As previously stated we do not believe that Option 2a, which could result in charges at or below this minimum system imposed level, is credible.

If the methodology for the shorthaul charge is based on a proxy for the avoided cost of building a dedicated pipeline then in order to ensure it remains cost reflective it would seem reasonable to update the tariff in line with changes in the price of steel and of National Grid's connection costs. If the methodology is based on relevant SO costs then updating it to ensure it remains cost reflective also seems appropriate. However whilst NTS SO and TO charges may change more frequently than once a year we do not think the shorthaul charge should be updated more frequently than annually. Also it is probably appropriate that all the variable elements of this methodology that determine the charge (SO Costs Components, SO Target Costs, Peak Flow Distance, System Load Factor and Number of Offtakes) should be updated, as applying a fixed percentage of SO Costs based on a snapshot in time of costs and network characteristics is as cost unreflective as not updating the charge annually.

With regard to shorthaul's applicability at multiple exit points we believe it is legitimate for shippers to apportion entry flows across multiple exit points on a basis other than pro rata, as under both methodologies the benefit to the exit point of bypass will be greater the lower the shorthaul charge applying at the site. National Grid state that introducing a non pro rata default would require significant system changes. Whilst we have no reason to doubt this it may be relatively simple to provide for non default allocation through the use of ad hoc credit notes, which bearing in mind the limited number of sites where shorthaul applies does not sound too administratively onerous.

Since it has recently been affirmed that from a charging perspective gas in store is assumed to pay the full commodity rate on entry/exit, we agree that it is perverse to continue to allow storage sites to be treated as eligible exit points for shorthaul. Doing so will allow gas in store to avoid paying the full commodity rate on entry which undermines the principle behind the recent decision not to introduce commodity charges on storage entry/exit flows.

Finally we are not convinced that the shorthaul charge should only be applicable to exit points that are connected between an ASEP and the next downstream compressor. This argument seems to be based on the premise that as compression costs are not factored into the shorthaul methodology an exit upstream of the compressor will have no effect on compression costs whereas an exit downstream of the compressor will. However we do not believe it will always be the case that connecting downstream of a compressor will require National Grid to increase the use of that compressor to meet the capacity requirements of the connecting exit point whilst maintaining those of other exit points in the vicinity. Nor do we believe that connecting up stream of a compressor could not result in an increase in the use of the compressor to maintain the capacity requirements of downstream exits points, thus incurring greater costs to the community. To this extent we think the shorthaul methodology should disregard compression and pressure effects completely.

Q5: Do respondents support either an implementation date of 1st October 2010 or an alternate implementation date?

We believe that an implementation date of 1st October 2010 is achievable and appropriate.