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Introduction of an SO Commodity Charge for NTS Storage Facilities

Dear Dominic,

RWE npower welcomes the opportunity to comment on the above pricing consultation document.

We have previously supported applying an SO Commodity Charge to gas input and offtaken from storage facilities and continue to do so, provided it is demonstrable 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.

National Grid's proposal is to reduce the standard SO Commodity Charge for storage sites on account that they are not expected to utilise compressor gas (which makes up part of the overall shrinkage costs) or contribute towards the cost of operating margins gas.

Whilst there may be some logic in excluding compressor gas, as this is a largely function of distance, it remains the case that if a storage facility is located a long way from a System Entry Point (as is the case at some LNG storage facilities) compression will be required to transport the gas to the storage facility. The same argument applies if the gas offtaken from storage facilities is not offtaken in the near vicinity, although as System Exit Points are more numerous and diverse the argument it is harder to demonstrate.

Also, whilst it is true that costs of operating margins gas is driven mainly by the need to support firm exit flows at or around peak periods this gas is stored in storage facilities, and to justify excluding this from an Storage SO Commodity Charge on the grounds that storage facilities are interruptible could be used as an argument for excluding it for all interruptible sites.

Interruptible storage facilities can be expected to be inputting gas to the system at peak periods whereas interruptible end user sites can be expected to be offtaking gas. When considered in conjunction with the fact that compressor gas will be used to transport gas to a storage facility this could suggest that the full SO Commodity Charge should be applied to exit flows only. This would also place NTS and LDZ storage facilities on an equal footing with regard to how NTS SO charges are applied.

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In the event gas is physically withdrawn and re-injected at a later date on a particular gas day we believe it is right for the Storage SO Commodity to be applied to both the entry and exit flows Charge (if introduced as suggested in this consultation) rather than being applied to the net flow. Providing the charge is cost reflective this should reflect the costs arising from these physical actions. However, aggregate shippers nominations and allocations at individual storage facilities do not always reflect physical flows at the storage facility, although the extent and degree to which this occurs is not known to us. If this is a regular occurrence however, and significant differences exist between physical flows and shipper allocations, this could be an argument for charging any Storage SO Commodity Charge to the Storage Operator (assuming they are a shipper).

Finally, if a Storage SO Commodity charge is introduced as suggested in this consultation we believe that those elements of the SO incentive scheme which relate to the own use gas element of shrinkage incentive and the operating margins gas element of the gas reserve incentive should be excluded when resetting Storage SO Commodity Charges.

Yours sincerely,

Steve Rose
Economic Regulation

Sent by e-mail and therefore not signed