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Proposal to modify Standard Special licence conditions A4, A5 and D11 of the Gas Transporter licence

Dear Joanna,

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

Whilst this proposal is separate to the ongoing discussions about the capacity/commodity split associated with DN transportation charges and the Gas Distribution Price Control Review (GDPCR), we think it should be considered in conjunction with these other issues. For example, a change in the capacity/commodity split to 95:5 is likely to negate some of the potential benefits arising from reduced variability of DN transportation charges claimed by this proposal. Similarly, some of the proposals currently being considered as part of GDPCR (e.g. the removal of the revenue throughput driver and the changes to the over/under recovery incentive) are likely to negate some of the potential benefits arising from reduced variability of DN transportation charges claimed by any change to the capacity/commodity split.

In our recent response to the joint DN consultation on changes to the capacity/commodity split (DNPC03) we agreed that the evidence seemed to support a change to 95:5, but argued that such a change should only be made at an appropriate time. In our opinion the most appropriate time for such a change would be commencement of the enduring offtake arrangements. However, if Ofgem's Regulatory Impact Assessment concludes that the benefits of such a change significantly outweigh the costs and any disproportional effects, it may be appropriate to make the change earlier or to consider a phased introduction up to that date. In our opinion the earliest date a change should be made to the capacity/commodity split is October 2009

We do not, at this time, support the proposal to modify DN licences to allow them to update transportation charges biannually in April and October. Whilst we recognise that the current disparity between the charging year and the price control formula year has, and could in future, exacerbate variability, we believe that the risk posed to shippers from this disjoint can be mitigated through better information provision. To this end we have raised Modification Proposal 160 which, if implemented, we believe will provide shippers with appropriate information with which to predict the likely direction and magnitude of future changes to DN transportation charges, thereby

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mitigating the potential risk that DN transportation charges cannot be appropriately recovered from customers. We are pleased to see Ofgem make reference to this modification proposal in their proposal letter and welcome Ofgem's support, in principle, to the concept of appropriate information release to shippers for this purpose.

Moving to biannual changes to DN transportation charges could have a disproportional effect on I&C suppliers ability to ensure that DN transportation charges can be appropriately recovered from customers, due to the prominence of the October contracting round and the prevalence of volume based pricing (at least at the smaller end of the market). In some cases this may require contract re-negotiation or a change to an I&C supplier's product offerings.

In our opinion it would be appropriate to defer any proposed move to biannual DN transportation charging until April 2009. During the intervening period it is hoped that better information on DN's recovery of revenue against price control allowances can be made available to shippers and that I&C suppliers (and customers) can plan to accommodate the possibility of biannual changes. If a similar consultation were undertaken next year shippers should not only have access to better information but will also know what decisions have been reached on DN's capacity/commodity split and GDPCR. They will therefore be in a better position to judge whether this proposal will achieve the potential benefits claimed, or whether other factors have by that time successfully mitigated the potential risks they face from price variability and unpredictability.

With regard to the proposal to reduce the indicative notice period or changes to DN transportation charges from five months to three months we assume this is linked to the implementation of biannual changes to those charges, although this is not stated in the proposal. As we do not, at this time, support biannual changes we do not think it appropriate to reduce the indicative notice period at this time. Whilst providing five months notice of indicative charges can and has (as can be seen from Table 1) resulted in significant inaccuracies developing between indicative and actual price changes, provision of better information to shippers on an ongoing basis would help them to overcome the problems associated with such inaccuracies. It is also noticeable that the differences between indicative and actual changes in 2007 were significantly less than in previous years. If this recent observation were now to represent the norm, the case for a reduction in the indicative notice period becomes less convincing.

Whilst consistency between gas and electricity distribution is generally to be welcomed we do not think that consistency should be applied for its own sake as regards the issues of both biannual charging and consistency of notice periods. That said, we believe reducing the notice period is something we could support in the event better ongoing information is provided to shippers and biannual charging is introduced.

Should you wish to discuss our response in more detail please do not hesitate me.

Yours sincerely,

Steve Rose
Economic Regulation

Sent by e-mail and therefore not signed