RWE npower

Joint Office of Gas Transporters
31 Homer Road,
Solihull,
B91 3LT

Your ref
Our ref Log 09_91
Name Steve Rose
Phone 01793 892068
Fax 01793 892981
E-Mail stephen.rose@rwenpower.com

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DNPD04 – Proposals for LDZ Exit Capacity Charges

Dear Sirs,

RWE npower welcomes the opportunity to respond to the above discussion paper and does so on behalf of all its licensed gas businesses. Would you please ensure our response is forwarded to the relevant persons at each of the Distribution Networks (DNs).

With regard to the specific questions posed in the discussion paper we would make the following comments.

1. Should LDZ Exit Capacity charges be based on a flat rate pence per peak day kWh per day rate in the same way as the NTS Exit Capacity charges are now or should some alternative be considered.

We agree with DNs that a flat rate pence per kWh/day rate is the most appropriate way for them to recover the NTS Exit (Flat) Capacity costs they will pay to NG NTS in the enduring exit regime. This approach ensures identical structures are used and so avoids the risk of under/over recovery or cross subsidy.

2. Should LDZ Exit Capacity charges be applied by Offtake, by Exit Zone or by Network as discussed in section 3.1, should they be included in the existing LDZ system charges or should some other alternative be considered.

We agree with DNs that LDZ Exit Capacity charges should be applied by Exit Zone.

Whilst applying such charges by Offtake may, on the face of it, appear to be the most cost reflective approach, the fact that LDZ Supply Points may map to different Offtakes in different demand/supply conditions and over time demonstrates that this is a theoretical perception and not one which is operationally robust. It also risks creating more volatility in charges without providing DN shippers with transparency over how such charges are likely to change, thereby making such volatility unpredictable and inappropriate.

Applying such charges by Network, whilst appearing to be relatively straightforward and to result in LDZ Exit Capacity charges which are less volatile, would significantly reduce cost reflectivity and lead to cross subsidies between different consumers

RWE npower

Trigonos
Windmill Hill Business Park
Whitehill Way
Swindon
Wiltshire SN5 6PB

T +44(0)1793/87 77 77
F +44(0)1793/89 25 25
I www.rwenpower.com

Registered office:
RWE Npower plc
Windmill Hill Business Park
Whitehill Way
Swindon
Wiltshire SN5 6PB

Registered in England and Wales no. 3892782

within a network.

Applying such charges based on Exit Zones is therefore the most effective way of ensuring cost reflectivity based on network operations, which is why charges have been set on this basis historically. This option also avoids the need for DN shippers to make costly changes to their registration and billing systems (as LDZ Supply Points are already mapped to Exit Zones) for little apparent benefit.

We accept the need for DNs to create a new LDZ Exit Capacity charge code. We would not wish to see such charges amalgamated into the existing structure of LDZ charges (Options 4 & 5) as these reflect the structure of DN costs, which are different to the structure of the charges the NTS will apply to the DNs. However, we do not see any need for DNs to consider introducing an LDZ Exit Commodity charge in circumstances where the LDZ Exit Capacity charges recovered from DN shippers are less than the costs incurred for NTS Exit (Flat) capacity, as is being proposed by NG NTS in similar circumstances.

3. Should the misalignment of NTS and DN dates for changing charges be addressed by the DNs seeking to change the LDZ Exit Capacity Charges in October or should no change be sought until the industry has some experience of the operation of the new regime.

Whilst we accept that there will be a misalignment of NTS and DN dates for changing capacity charges we do not think DNs will be unduly impacted by this. A DN's holdings of NTS Exit (Flat) Capacity at each Offtake Point is likely to be booked, or known about, well in advance of each formula year and the NTS pricing model is likely to provide them with a reasonably predictable view of what such capacity will cost. On this basis DNs should be in a position to set LDZ Exit Capacity charges in April each year that largely recover the costs they will end up paying NG NTS. To the extent any material under/over recovery becomes apparent during the first half of the formula year, DNs already have the ability to change charges from October following notification to Ofgem. Whilst we see this being used more as an exception than as a rule we consider it preferable to DNs pursuing charging methodology changes that would require them to revise LDZ Capacity charges bi-annually, or annually from October.

4. Should we introduce a separate "K" for the LDZ Exit charges, for the purposes of setting the level of the charges.

We believe there is merit in considering a separate "k" for LDZ Exit charges such that any under/over recovery in LDZ Capacity charges feeds in to the calculation of such charges for the following formula year. This will ensure that any under/over recovery is recovered from or paid back to DN shippers broadly in the same proportions in which it arose, which would not be the case in the event an LDZ Exit Commodity charge were to be introduced.

In the event a separate "k" is introduced we would expect information on under/over recovery of LDZ Capacity charges to be factored into the DNs Mod 186 reports in due course.

Should any of the DNs representatives wish to discuss our response in more detail they should not hesitate to contact me.

Yours faithfully,

Steve Rose*
Economic Regulation

* sent by e-mail therefore unsigned