

Mr. Julian Majdanski
Joint Office of Gas Transporters
Ground Floor Red
51 Homer Road
Solihull
West Midlands
B91 3QJ

Your ref
Our ref
Name Stephen Rose
Phone 01793 892068
Fax 01793 892981
E-Mail stephen.rose@rwenpower.com

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Modification Proposal 164: Bi-Directional Connection Point Overrun Charge Calculation

Dear Julian,

We welcome the opportunity to respond to the above modification proposal and do so on behalf of all our licensed shipper entities and on behalf of the GB business of RWE Trading GmbH. We do not support this modification proposal.

The current situation regarding allocations at bi-directional connection points has persisted for many years. We assume that the increased scarcity and cost of entry capacity at Rough is why the proposer has raised this modification proposal now. Whilst all Users at Rough and other bi-directional connection points are exposed to changes in the cost of capacity (both entry and exit) over time, we believe this modification proposal is likely to benefit only the operator.

As far as we are aware, all bi-directional connection points adopt the principle that in normal operating conditions (i.e. no interruption, mandatory withdrawal or cessation has been declared) nominations are allocated whole. Providing nominations are made in accordance with contractual rights therefore they will be allocated in full, regardless of the physical flow that takes place. Customer Users at the bi-directional connection point know that in order to avoid a capacity overrun charge they will need to acquire sufficient capacity (entry or exit) to meet their daily nomination regardless of the direction of the physical flow, about which they have no definitive knowledge.

The operator at a bi-directional storage facility will typically nominate gas to ensure that the physical gas in store balances the commercial stock level of its customers. In normal operating conditions the net nominations of customers Users should equal the net physical flow and so the operator has no need to nominate gas or purchase capacity. However, because the operator allocates whole, any operational problem could mean that on occasions the operator may need to nominate more (or less) gas to flow than is governed by the net nominations, so as to ensure the physical gas in store remains in line with customers commercial stock levels. Also the operator, at storage facilities and interconnectors, has discretion to commercially optimise gas flows, for example by choosing not to flow gas (thereby saving operating costs) if gas can be purchased from the market more cheaply.

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

As the operator is the only party that knows what the physical flow is, customer Users at bi-directional connection points will not be in a position to acquire less capacity than is represented by their nomination. However, the operator will be able to take advantage of subtracting gas allocated in the opposite direction from the total overrun amount, as provided for by this modification proposal, and so can flow gas without needing to book capacity.

For example, if the sum of all withdrawal nominations at a storage facility were 120 units and the sum of all injections nominations were 20 units, in normal operating circumstances the physical flow would be expected to be 100. If withdrawing customer Users did not book 120 units of entry capacity in aggregate they would expect to face entry overrun charges and if injecting customer Users did not book 20 units of exit capacity in aggregate they would expect to face exit overrun charges. However, if the storage operator were to withdraw an extra 20 units to that governed by the net nominations they could do so under this modification proposal without the need to book 20 units of entry capacity.

Whilst it is true that any customer User who did not book sufficient entry capacity to meet its nomination would also benefit in the above example, the fact that the customer User will not know what the physical flow is makes it inconceivable to think that they will deliberately under book capacity to potentially take advantage of this proposed amendment to the overrun regime.

The fact that only the bi-directional connection point operator is able to exploit the potential of capacity being overbooked (compared to the actual physical flow) on days where flow is nominated in both directions runs counter to the relevant code objective of securing competition between relevant shippers.

Also as the aggregate bookings of all Users at a bi-directional connection points should equate to the maximum capacity that is likely to be used at the facility (both from an entry and exit perspective) under the current arrangements, netting off the counter directional flow from the capacity overrun charge could lead to system inefficiency, as it may send inaccurate signals as to the maximum amount of capacity required.

Yours sincerely,

Steve Rose
Economic Regulation

Sent by e-mail and therefore not signed