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Re: Proposed UNC Modification 0171 and Proposed UNC Modification 171A: Amendment of “Shipper SP Aggregate Reconciliation Proportion” to Incorporate Historical AQ Proportions

Dear Julian,

As the proposer, RWE Npower supports Proposed UNC Modification 171 and gives only qualified support to Proposed UNC Modification 171A.

A Shipper's share of the Aggregate NDM Reconciliation charge under the RbD process is based on their proportion of Aggregate LDZ AQ in the month prior to the invoice being issued. Therefore, a Shipper will be billed (or credited) based on their current share within that LDZ rather than their share at the time that the error took place.

The view of RWE Npower is that the current regime can be construed as a barrier to entry as, under the present rules, new entrants to the market can potentially be held liable for reconciliations relating to a time long before they entered the market. Indeed, this actually happened in the recent reconciliation in the South East LDZ, where certain Shippers were invoiced for a share of a £25.8 million reconciliation based on their current AQ holdings despite the fact that some of them had not been active in the LDZ for the whole of the six year period that the invoice covered.

The current arrangements could also be deemed to be anti-competitive, as a Shipper acquiring more customers within an LDZ increases its AQ within that LDZ which in turn increases the risk that it may find itself liable for a larger proportion of any Aggregate NDM Reconciliation charge issued. This risk factor needs to be priced in and this may then prevent a Shipper from offering the best possible price to consumers.

Although the two proposed UNC Modifications are very similar in their general substance, the one major point of difference between the two is retrospective calculation. While RWE Npower feels that this is required in order to effectively reflect Market Share at the time of the error, British Gas has stated in its alternate Mod 171A that retrospection, *“...introduces commercial uncertainty, undermining confidence around industry rules and trading arrangements. This creates unacceptable levels of risk that destabilise competition, and stimulate inflated risk premiums”*.

As an alternative, British Gas has therefore proposed that from April 1, 2008 (or an


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alternative future implementation date specified by Ofgem which will be known as the “Proposed Effective Date”) reconciliations covering the period after this date be allocated on Daily AQ share at the time of the error concerned.

We are glad that British Gas’ alternate Modification will, going forward, remove the current uncertainty relating to inherited liability and effective competition for the period after the Proposed Effective Date. However, we do not agree that reconciliations covering periods before the Proposed Effective Date should be calculated upon each Shipper’s AQ share on the Proposed Effective Date. Applying these rules in the case of a debit to RbD would have the effect of benefiting Shippers whose market share has fallen between April 1, 2004 (assuming that Proposed Modification 171A is implemented by Ofgem on or after April 1, 2008 when Modification 152V comes into effect) and April 1, 2008 and penalising Shippers whose market share has risen.

Although British Gas have accused us in their response of seeking a commercial advantage from a directional shift in portfolio after such a directional shift has occurred, our proposal is merely reflective of each participant’s AQ at the time of the error itself. This appears to us to be fairer, and although we feel that British Gas’ Proposed Modification 171A is better than the existing regime we cannot, in the case of the discovery of a meter error resulting in a debit to RbD, support the rules being changed to benefit a small number of Shippers whose market share has fallen over time to the detriment of the majority whose market share has risen over time in the case of errors before the Proposed Effective Date.

We would also point out that it is possible for a Shipper that entered that market in 2006 or 2007 to be liable for an RbD reconciliation covering 2004 and 2005 based on their AQ on the Proposed Effective Date under British Gas’ Proposed Modification 171A. Our Proposed Modification 171 completely removes this possibility and thus better furthers Standard Special Licence Condition A11.1 c), ensuring that costs are targeted at those who cause them, and Standard Special Licence Condition A11.1 d) i), ensuring the securing of effective competition between relevant Shippers, as those mentioned in the case above will not be liable for costs incurred before they entered the market.

Finally, we believe that our proposal to use Monthly Aggregate Aqs for calculation of reconciliation would be more cost effective and require less work for Xoserve than British Gas’ proposal to use daily Aqs which we believe would require a greater level of analysis and investment by Xoserve without providing a corresponding level of benefit.

If you wish to discuss any points raised in this response further, please do not hesitate to contact me.

Regards,

Chris Hill

Gas Codes Analyst