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Re: Proposed UNC Modification Proposals 0244 / 0244B: "Amending DM Supply Point Data for Sites with Significant Changes in Usage" & 0244A: "Introduction of an Exception Process for Decreases in Supply Point Capacity (SOQ) at Daily Metered (DM) Supply Points"

Dear Tim,

RWE Npower offers support for Proposed Modification 0244A and qualified support for Proposed Modification 0244B. We do not support Proposed Modification 0244.

Evidence suggests that, in light of the current recession, a proportion of DM LDZ Supply Points are reducing their levels of gas usage, largely in the case of manufacturers whose production has fallen. As Capacity Charges are paid based on the SOQ of the Firm LDZ Supply Point (or BSSOQ in the case of an Interruptible Supply Point) in question, and given that the SOQ cannot be dropped below the BSSOQ under the current rules, it would seem pragmatic to allow eligible DM LDZ Supply Points to reduce their costs in a difficult market rather than forcing them to be restricted by a number which may in many cases not be reflective of their current or likely (at least in the short term) future level of gas usage.

As stated by Corona Energy, the only option currently available to a DM LDZ Supply Point attempting to reduce the amount which it pays in Capacity Charges is to isolate and withdraw from the site. The drawbacks to this are manifold, including a drop to zero in the Charges contributed by that particular site as well as possible job losses and withdrawal of investment which, if repeated at many sites across the country, could potentially exacerbate the severity of the current recession.

Given this, it would seem logical to allow eligible Supply Points to revise their SOQ downwards in order to reduce their costs and reflect their current level of gas usage. Modification 0244 suggests that BSSOQ could also be revised downwards. However, we agree with Wales & West Utilities that, although it would be possible under Proposed Modification 0244A for the SOQ to be dropped below the BSSOQ, the BSSOQ level should remain the same as this is merely a factual data item and amending it could potentially distort its value as a data record.

On the subject of timing, it would appear more pragmatic to support an enduring solution rather than National Grid Distribution's time limited (to September 30, 2011) Proposed Modification 0244B as it is by no means certain how long the current economic situation will continue.

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Should this situation change in the near future, it should not be problematic to alter the process via a UNC Modification if this is deemed to be appropriate.

In addition, we agree with Wales & West Utilities and National Grid Distribution that DNOs should be given the opportunity to validate or reject applications for a reduction in SOQ by an eligible LDZ Supply Point which is something which Proposed Modification 0244 does not provide for. We are concerned that the retrospective invoicing of charges contained in Proposed Modification 0244 would result in significant implementation costs which may be disproportionate to the issue that the Modification is seeking to resolve. Giving the DNOs the power to reject or approve SOQ reduction applications should avoid this potential inefficiency as they are likely to have a more detailed view of whether or not a Supply Point is likely to increase its gas usage in the near future after dropping its SOQ.

However, our main concern with all three Proposed Modifications is the socialisation of costs that will follow any implementation and utilisation.

As Capacity revenue to the DNOs falls as a result of eligible sites reducing their SOQs, this will lead to under recovery in the 2009/10 and future Gas Years with the result that Shippers whose customers will receive less benefit from these Modifications (i.e. Shippers whose customers are primarily SSP rather than LSP) will be (at least in the short term) cross subsidising the eligible customers of other Shippers whose portfolio is made up to a greater extent of eligible DM LDZ Supply Points. Despite this, we consider that this scenario is better than the potential isolation and withdrawal of any significant number of sites as this could result in an even greater socialisation of costs in the longer term.

We would like to emphasise the fact that if any of the Proposed Modifications are implemented by Ofgem, eligible LDZ Supply Points must be made aware that there is a risk that any Capacity which they decide not to make further use of may not be available in the future when they wish to increase their usage and they may face reinforcement costs as a consequence of this.

Finally, we believe that the more accurate SOQ and AQ information that is provided to DNOs by DM LDZ Supply Points, the more efficient the investment signals received will be. As things stand at present, there is a possibility that Capacity investment could be planned that is not required based on inaccurate information and this investment could result in stranded assets in the long term if the DM LSP sector is not given the opportunity to provide accurate SOQ and AQ information in a timely manner.

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