

Mr. Tim Davis
Joint Office of Gas Transporters
First Floor South
31 Homer Road
Solihull
West Midlands
B91 3LT

Your ref
Our ref
Name Chris Hill
Phone 0121 336 5260
Fax
E-Mail christian.hill@rwenpower.com

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Re: Proposed UNC Modification Proposal 0275: "Reduction in DM LDZ Exit Capacity for Supply Points with Significant Changes in Usage"

Dear Tim,

RWE Npower would like to offer qualified support for the above Proposed UNC Modification.

As a consequence of the current economic conditions, there has been a considerable reduction in the level of gas demand in the UK market. This has led to a significant drop in usage at many Supply Points, especially at large Industrial and Commercial sites.

Under the current rules contained in the UNC, the lower SOQ limit at a Daily Metered Supply Point is restricted by the BSSOQ which is determined by that Supply Point's peak daily consumption within the previous Winter period.

Given the speed with which the recession has taken effect, many DM Industrial and Commercial Supply Points' BSSOQs are in no way reflective of their current level of gas usage. However, because the minimum level of their SOQ is limited by this figure they continue to pay Capacity charges as if they were still consuming gas at their previous pre-recession levels. In theory, such a Supply Point could continue in this situation for up to 2 years before the BSSOQ resets in line with its current lower level of usage.

The 0264 Review Group determined that this is an issue for which a long term solution needs to be devised. However, in the short term, we feel that it seems reasonable that an exceptions mechanism be introduced solely for the gas years 2009/10 and 2010/11 permitting Users to request on behalf of their eligible Supply Points a reduction in their current BSSOQ and SOQ. We understand that this does not apply to NTS Supply Points.

We agree with the proposer that appeals under the exceptions mechanism should only be granted in the situation where an eligible Supply Point wishes to reduce both its SOQ and BSSOQ to a level below its current BSSOQ. It also seems appropriate that such appeals only be possible within the existing Capacity Reduction Period.

In addition, we are in agreement with the proposed "catch up" mechanism to avoid the possibility of inappropriate behaviour on the part of Users whereby ratchet charges are applied should an eligible Supply Point's peak daily consumption within the relevant

npower

Oak House
Bridgwater Road
Worcester WR4 9FP

T +44 (0)1905/34 05 21
F +44 (0)1905/34 04 88
I www.npower.com

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

Registered in England
and Wales no. 3653277

Gas Year exceed the reduced SOQ level that was granted as the result of an appeal through the exceptions mechanism.

However, we do have some concerns about the potential level of take up with regard to the proposed exceptions mechanism and the cross subsidy that this will create.

The Transporters stated to the 0264 Review Group that they had seen no evidence beyond the normal levels of eligible Supply Points attempting to reduce their SOQs down to the level of their BSSOQ, which would be expected if they found themselves in a situation where they felt they were paying Capacity charges which were not reflective of their current level of usage.

Despite this, the Modification Proposal contains the statement:

“Users have informed Transporters that there is a real likelihood of significant commercial impact upon certain large consumers if this Proposal is not treated as urgent”.

These two statements are somewhat at odds with each other and it cannot be determined by studying them what level of take up the Proposed Modification, if implemented, is likely to result in. The level of utilisation of the exceptions mechanism by eligible users will have a corresponding impact on the recovery of transportation revenue which would in turn impact transportation revenue for 2010. The majority of this cost is likely to be borne by the residential market which would, in effect, be a cross subsidy.

In addition, we are also concerned that significant SOQ and BSSOQ reductions over the course of the Gas Year could result in DNOs overbooking NTS Exit Capacity through the OCS window which could lead to an under recovery in NTS TO Exit revenue. This would also contribute to any cross subsidy.

We would also like to reiterate the point that eligible Supply Points planning to take advantage of the exceptions mechanism in the event that the Proposed Modification is implemented by Ofgem should be aware of the fact that Capacity may not be available in the future when they wish to increase their usage. It is also possible that they may then face reinforcement costs as a consequence of this.

Although we understand the situation in which certain Industrial and Commercial consumers find themselves and while we are sympathetic to this, we are uncomfortable with the fact that it has not been possible to accurately predict the level of cross subsidy resulting from the possible implementation of the Proposed Modification hence the reason that RWE Npower can only offer qualified support for this.

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