RWE npower offers its qualified support for this modification proposal.

We fully accept the premise upon which the modification proposal is based, namely that greater transparency of information regarding gas flows at sub terminals is likely to promote efficiency in traded gas markets.

We also recognise that the shippers with upstream assets have greater access to terminal gas flow information as a consequence of their offshore field operations and beach delivery arrangements. This creates an information assymetry for downstream shippers, customers and traders which if removed should better enable market participants to compete on equal terms.

The modification proposal will not remove the disparity that currently exists regarding the extent to which participants interpret and take advantage of market opportunities, nor should it. However, it will at least create the perception amongst non upstream participants that they are able to trade knowing that that there is not some key information regarding within day gas flows which is influencing market fundamentals at that time, and which they are unaware of.

Whilst we recognise that this modification proposal needs to be considered against the relevant objectives of Transco's network code, the fact this it is inextricably linked with issues which Ofgem are currently consulting on in their "Offshore gas production information disclosure" consultation, and that further gas flow information is shortly expected to be released under the voluntary information release scheme, cannot be ignored.

Were this modification proposal to be approved it would formalise the requirement for Transco to release specific real time gas flow information under the Network Code, thus reducing the dependency on information provided under the voluntary scheme. However, approval could pre-empt an immediate withdrawal of information that is already being released under the voluntary scheme and could jeopardise information which is expected to be provided in the future.

True real time gas flow information at sub terminal level compared to near real time information in aggregate could also have the effect of increasing market volatility, as the market may misinterpret errors associated with data capture and fail to take adequate account of field substitutability. It may also result in trading parties front running those asset /contract owners that have had a curtailment event, and not give those parties time to cover lost volumes in the market first. This could be perceived as a penalty on asset owners and is hardly likely to incentivise the building of new infrastructure.

We therefore believe it is important and legitimate to consider these factors as part of the overall cost and benefit analysis of this modification proposal. Whilst customers are keen to see improved market efficiency they must recognise that the price of this may be an increase in market volatility, particularly in the prompt market.

The extent to which extra benefits will arise as a result of Transco providing real time gas flow information at sub terminal level compared to near real time information at zonal level requires careful consideration. energywatch's cost benefit analysis attempts to shows that considerable benefits could arise from this modification proposal, but these benefits are compared against a base case which assumes no further information is made available. Clearly Ofgem, DTI and Transco do not expect to be the case post July 2005.

Whilst we believe that there could ultimately be extra benefits arising from having information provided at sub terminal, as opposed to zonal, level which derives from market participants gaining a better understanding of balancing and interruption triggers, it is virtually impossible to quantify the extent of these extra benefits until we have seen the impact that zonal information has on overall market efficiency. Bearing in mind the significant costs which Transco (and therefore shippers/customers) might incur proposal (IS development and duplicate metering costs), and the fact that detailed analysis of these has not yet been undertaken, we believe it would be unwise for Ofgem to make too hasty a hasty judgement on the merits of this modification proposal and whether it satisfied the relevant objectives. Also as it would appear implementing this modification proposal may create contractual difficulties surrounding the issue of data ownership, it is important that Ofgem consider these fully before making any decision.

The validity and scale of some of the benefits energywatch have attributed to this modification proposal are in our view questionable. Whilst we accept that benefit analysis in this area is not easy, and that energywatch have made an a legitimate attempt to undertake this (albeit with heavy reliance on work undertaken by Barclays Capital), bearing in mind the aforesaid issues we believe that further sensitivity analysis should be undertaken of both the assumed benefits and costs.

The largest part of the £265m p.a. benefit assumed by energywatch derives from improved market efficiency, and the assertion that better information provision could reduce the bid/offer spread by 0.05 p.therm. As energywatch point out, bid/offer spreads are driven by market liquidity and this varies considerably between the prompt and the curve markets. Provision of real time gas flow information can be expected to have most impact initially on prompt trading, as end of day flow information is already made available. Whilst it can be expected to have some knock on effect in the liquidity of the curve market, the extent and speed of which it does will be influenced by factors other than just information availability and asymmetry (e.g. new entrants, credit policy, VAR levels and trading efficiency).

Whilst we do not think it unreasonable to assume that this proposal might reduce the prompt market bid/offer spread by 0.05 p/therm or more in a relatively short timeframe, we are not yet convinced that the same would apply to the curve market based on the current market climate.

However, even if we were to accept that such a reduction could be applied to both the prompt and curve markets, we do not agree with energywatch's assumption that traded volume equates to 40 billion therms per annum. Traded volume has declined significantly over the last year and the current traded volume for the year just ended is running at around 7 billion terms p.a (source ESGM 23/2/05).

Of the remaining £65m of assumed benefit attributed to better market signals and increased competition in production and supply we struggle to understand how this proposal will increase competition in production. Whilst we accept that it should improve market signals and supply competition in the prompt and front part of the curve, the same can not be said for the rest of the curve as this is influenced far more by macro market signals and by information which is already largely available to all. Whether it is appropriate to use an estimate of the impact BETTA may have in reducing end user electricity prices as proxy for gauging the impact this proposal may have on reducing end user gas prices is also questionable, bearing in mind the fundamental difference in the nature of what they are each intended to bring about. However if it is felt to be appropriate it may still be prudent to gauge what the actual impact of BETTA on end user electricity prices is, bearing in mind its imminent implementation date, before making a judgement on the benefits that will arise from this proposal.

Finally whilst energywatch have not actually included any benefit arising from better co-ordination of outages within the £265m p.a. of assumed benefit, they have alluded to it as being an extra benefit that could result. We do not believe the provision of real time flow data at sub terminal level has any bearing whatsoever on the co-ordination of outages and should therefore be ignored.

If forced to consider this modification proposal in isolation we accept that the benefits that are likely to arise from it would outweigh the likely costs, and that it would satisfy most of the relevant network code objectives. This is why we are prepared to offer our qualified support for it.

However we do not think it is reasonable to expect us, or Ofgem, to do so at this time bearing in mind:

- Ofgem's current consultation;
- the possibility that release of zonal information in the near future may in itself deliver a large proportion of the benefits attributed to this modification proposal;
- the possibility that information which has already been made available under the voluntary scheme may be withdrawn if this modification is approved; and
- the lack of any sensitivity analysis undertaken on the costs and benefits associated with this proposal.

We suggest therefore that Ofgem delay making a decision on this modification proposal until both they and shippers/Transco have greater certainty and understanding on each of these points. This may require Ofgem to re-consult on it at a later date.

This course of action, is more preferable than taking a decision to accept or reject it now, but in the event Ofgem do feel it necessary to make a decision on the modification proposal based in what is known today, we could not support it.