

Mr. Julian Madjanski
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Re: Modification Proposal UNC 090 – Draft Modification Report

Dear Julian,

RWE npower is generally in favour of the proposed modification as we feel that the existing process does not really reflect the value of Interruption and does not provide appropriate signals for long term investment. However, we believe that the new arrangements will go some way towards rectifying the situation in this respect.

Despite this we still have some concerns over certain questions raised by this proposal, particularly with regard to security of supply.

Our first concern is the potential unwillingness of users to apply for Interruptible LDZ Capacity. Under the new arrangements laid out in the proposal, it seems likely that there will be considerably fewer Interruptible users than there are at present. The proposal states that compensation payments for Interruptible rights will be dependent on the permitted number of Days of Interruption per annum and the physical location of the Interruptible user.

We interpret this to mean that an Interruptible user physically located in a known area of constraint with a high number of permitted Days of Interruption will receive a considerably higher level of payment than an Interruptible user physically located in an area less liable to constraint and with a lower number of permitted Days of Interruption.

This can be regarded as a disincentive to apply from the point of view of both Interruptible users. The first Interruptible user will be considerably more likely to be Interrupted than the second Interruptible user and may not consider the greater risk of Interruption worthwhile, thus discouraging it from making an Application for Interruptible LDZ Capacity. The second user may be discouraged from applying by the potentially much lower payments it will receive from the Transporter for its Interruptibility, even though its chance of being Interrupted is likely to be considerably lower than that of the first user.

Clearly a lack of interest from users could potentially be extremely detrimental to the smooth running of the process and would almost certainly have implications for security of supply on a tight day, as fewer Interruptible users would give the NEC a lessened ability to reduce demand through Interruption.

Following on from this, we are also concerned with regard to the lack of detail given as to the option and exercise fees paid by the Transporter to the Interruptible user. It is not clear whether the interruptible user will have any choice in whether to structure compensation in the form of a high option/low exercise fee or vice versa. This needs to be clarified in the transportation charging methodology.

In light of this, and the premium which appears to be placed by Transporters on a user's physical location and number of permitted Days of Interruption, it is the opinion of RWE npower that, although the purpose of this proposal is to manage constraints on the network, consideration should be given as to the knock on effect that the proposal may have on the ability of Transporters to reduce demand when the network is under stress. Despite this, RWE npower agrees that constraints need to be managed in as efficient a manner as possible, and that the proposal should provide clearer long term signals with regard to long term investment in this respect.

If there is a small take up from users, we are also concerned that shippers may have to introduce new processes for just a small handful of users. This is likely to be both time consuming and unlikely to justify the financial expenditure which would potentially be required.

Lack of competition is also a concern. Given the size threshold allowing a user to apply for Interruptible status, if there is only one or very few users of the requisite size in an LDZ known to be an area of constraint, and none or a minority of these users wish to make an Application for Interruptible LDZ Capacity because of the increased Interruption risk involved, then this could force transporters to make investments which are not as efficient.

The new system of Pollution Prevention and Control (PPC) permits raises other questions. Users who have back up capability are likely to want to turn this on when Interrupted by the Transporter. As the majority of this generation is likely to be heavy oil or diesel fuelled, they are likely to be restricted under the PPC rules as to how many days a year they can run this back up generation. This may further increase the reluctance of users to make an Application for Interruptible LDZ Capacity and increase the likelihood of this capability being de-commissioned, again raising security of supply issues on days when the network is tight.

The question of Continental European gas supply must be considered. It is an accepted fact that the UK is rapidly becoming a net gas importer and the level of imports is likely to increase in the near future.

Continental Europe, partly because of its larger landmass, is often subject to greater extremes of temperature than those experienced in the UK, particularly in winter. Therefore on a cold winter day in the UK, Continental Europe is likely to be even colder, with the corresponding increase in gas demand there.

As evidence shows, the Belgium – UK gas interconnector does not function as economics dictate it should during periods of extremely high demand here. In addition, we have already stated that it seems likely that this proposal will result in a smaller number of Interruptible users than at present and this aspect of a shortfall of gas supply from Europe on certain winter days, coupled with fewer Interruptible users who can be called on to reduce demand, could increase the likelihood of an emergency on such a day.

If the situation is such that the short term gas price on the Continent is higher than that of the UK, the problem might then be exacerbated even further by participants flowing out of the UK on the interconnector to take advantage of such a price spread.

In addition to the points listed above, we feel that Modification Proposal UNC 116 is also likely to have a significant interaction with Modification Proposal UNC 090. Inconsistencies between the two may cause problems in the form of incorrect signals being sent out to Transporters, perhaps increasing the likelihood of stranded assets in some areas and increasing the likelihood of inappropriate and unnecessary investment in others. We therefore feel that Modification Proposal UNC 116 should be agreed on before the same is done with Modification Proposal UNC 090.

The Modification Proposal will result in implementation costs for shippers as they will need to amend contractual and credit arrangements, adapt customer information systems and raise interruption offers on behalf of customers, and the extent of these costs needs to be properly estimated in the final impact assessment. It would be no great surprise, however, if as a consequence some suppliers decide to pull out of the interruptible supply market which would be detrimental to supply market competition.

In summary, RWE npower again reiterates the fact that it is in general agreement with the proposal and feels it is potentially a step forward in relation to providing better locational signals than under the present arrangements and efficiently managing constraints. However, we request that the points made above, particularly those relating to potential security of supply impact, be taken into consideration.

If you wish to discuss any of the points raised in this response further, please do not hesitate to contact me on 01905 340693.

Yours sincerely,

Chris Hill

Gas Codes Analyst