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Re: Modification Proposals 0152V, 0152AV and 0152VB: Limitation on Retrospective Invoicing and Invoice Correction

Dear Julian,

RWE Npower supports the principle to implement a Rolling Invoice Billing Period with a hard cutoff date for retrospective invoices. The original fixed cutoff of February 1, 1998 was created to coincide with the opening of the market to domestic competition. However, we feel that this is no longer appropriate. Firstly, it exposes RbD Shippers to the unacceptable risk of adjustments outside of the normal limitations period. Secondly, as the period for which we are exposed to risk becomes longer, both ourselves and Xoserve are required to hold an ever increasing amount of data.

However, I feel that it is important that we clarify our support given the three separate possible options currently under review. Although we feel that all three proposals are superior to the current arrangements, we believe that Modification Proposal 0152V is the most appropriate from our point of view. Therefore, we support Modification Proposal 0152V and offer only qualified support for Modification Proposals 0152VB and 0152AV. In effect, our preferences run (from most preferred to least preferred), 0152V, 0152VB and 0152AV.

The reason for our preference for 0152V is the shorter Rolling Invoice Billing Period of a maximum of five years which this Modification proposes as opposed to the six and seven year Rolling Invoice Billing Periods proposed by Modifications 0152VB and 0152AV respectively. In addition, this was also the Rolling Invoice Billing Period recommended by the vast majority of participants in the 0126 Review Group, which spent a considerable amount of time debating the relative merits of the different options.

As a Shipper exposed to RbD we would of course prefer to limit our potential risk relating to exposure to this as much as possible. Therefore, the five year model proposed by Modification 0152V is obviously our preferred choice. We accept that this shorter cutoff period means that there is an increased risk that the cost of meter errors, particularly LDZ/NTS Interface meter errors discovered after a long period, may not be appropriately targeted. However, we feel that this is more of an issue for the Transporters to deal with through improvement of their metering regimes rather than expecting RbD Shippers to accept a longer period of risk than that proposed in Modification 0152V, particularly when such errors result from matters beyond the Shippers' control.



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We would like to note at this point that Statoil, as a large I&C Shipper, has stated that its incentive behind raising Modification 0152AV, with a proposed seven year Rolling Invoice Billing Period, is to ensure that, under the Limitation Act 1980, it does not find itself in a position where one of its customers can claim costs from it without it being able to recover those costs from the Transporter. At the Distribution Workstream where this was discussed it was admitted that the likelihood of such an event happening was very remote but if it did happen the impact could be significant. However, large adjustments to the RbD account through NTS/LDZ meter errors are by no means rare.

While we understand Statoil's position, the fact is that RbD Shippers and large I&C Shippers are almost certain to be diametrically opposed on this issue.

RWE Npower, as an RbD Shipper, does not support a longer Rolling Invoice Billing Period which would potentially increase its exposure to previously undiscovered meter errors and also the level of uncertainty relating to this when a shorter Rolling Invoice Billing Period is proposed in Modification 0152V. By contrast, Statoil, which is not an RbD Shipper as all of its customers are daily metered, is unaffected by this concern but, as stated above, is concerned that it will be unable to recover costs from Transporters if challenged by customers if the Rolling Invoice Billing Period is not seven years as proposed in its Modification 0152AV.

It is worth making the point here that RbD Shippers are prohibited from passing costs relating to RbD adjustment on to domestic customers more than two years after the error causing the adjustment occurred. This will soon be reduced to one year. Therefore, the longer the Rolling Invoice Billing Period implemented by Ofgem, the greater the risk that RbD Shippers assume in relation to this. As Statoil seeks to reduce its level of risk by supporting a longer Rolling Invoice Billing Period, RWE Npower seeks to do the same by supporting a shorter one.

In effect, each proposal reduces the risk for one class of Shipper while increasing the risk for the other class leaving both in a position where they cannot logically support the other's viewpoint. As both arguments are doubtless equally valid, Ofgem will have to use its discretion when ruling upon these Proposed Modifications.

In addition, the NTS Shrinkage Manager has indicated its preference for the seven year Rolling Invoice Billing Period as proposed in Modification 0152AV, while National Grid NTS has indicated a preference for either 0152VB or 0152AV over 0152V. The significant majority of meter errors are under records rather than over records. Therefore, it is more likely that the NTS Shrinkage Manager, and, by extension, National Grid NTS, will recover less money under a shorter Rolling Invoice Billing Period in relation to gas provided for shrinkage purposes than the possibility that it will have to pay out less money in a shorter Rolling Invoice Billing Period with relation to Shipper credits resulting from meter over records during the same time period.

We appreciate the NTS Shrinkage Manager's position in this respect, but would like to reiterate our view that meter errors between Transporters are an issue beyond our control and we feel that meter accuracy is a matter for those Transporters to deal with. Rather than the quick fix of lessening their risk by increasing that of RbD Shippers, Transporters should be looking to improve the accuracy and reliability of their metering so that large adjustments (whether credits or debits to Shippers) become a thing of the past.

We are fully in support of the concept of the annual roll forward for the Rolling Invoice Billing Period being in April of each year as this does not then coincide with the extremely busy October period resulting from AQ review etc., and are happy to see that all three proposed modifications agree with this approach.

We also feel that another major benefit will be derived from the fact that Shippers will be required to

store less information than at present, providing reduced costs and increased efficiency. In addition, Xoserve's requirement to store less information should reduce strain on the UK Link system which will also provide economic and efficiency benefits.

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