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Re: Proposed UNC Modification 0209: "Rolling AQ"

Dear Bob,

On behalf of RWE npower, I would like to thank you for the opportunity to respond on Modification Proposal 0209 'Rolling AQ'.

Review Group 177 'Rolling AQ Review' was formed in October 2007 to identify and discuss the costs, benefits and opportunities associated with a rolling Annual Quantity (AQ) Review. Its scope and deliverables included the consideration of the existing AQ Review and the issues associated with it.

It also suggested discussing a mechanism to allow a rolling AQ calculation amongst other issues. Having carried out a review of the current process and potential impacts on areas such as SOQs, AQ Validations, Threshold Crossers to name but few, Review Group 177 final report recommended a further cost benefit analysis to be carried out should a mod proposal be raised.

As a result, Mod 209 was raised in April 2008 as a development modification proposal. The development group's primary objective was to further explore and build on the strawman report produced by Review Group 177.

RWE npower supports the principle and concept of this DMR, but at this stage we only feel able to offer comments. This mod proposes a fundamental change to the current AQ Review process, and we strongly believe that along with the development work carried out on this proposal a detailed financial impact assessment and suitable legal text would have made it possible for us to make an informed decision and possibly offer our full support.

The traditional AQ Review is very labour intensive for a few months, most notably over the peak season e.g. summer holidays. However, it is almost impossible to carry out a complete review of all sites in the current time allowed. The most logical approach is to have a regime whereby meter reads could be submitted by shippers to the transporters agent, xoserve as and when these becomes available. This could encourage shippers to challenge inaccurate AQ values in subsequent months rather than waiting for a whole year.

Conceptually, the idea of a monthly AQ Review makes a great deal of sense as it should enable more accurate AQs to be used in the system and a gradual change of a portfolio rather than a step change at 1st October each year. By allowing AQs to be updated on a monthly basis, and given the expected

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reduction in actual gas consumption, it should then be possible to limit the risk to shippers as intended by this mod.

Whilst it won't significantly change transportation charges, it should give a better view of each User's portfolio and therefore share of the costs. Also, getting more frequent meter reads will not only give the customers a more accurate bill but will also emphasise the need to ensure that payment levels are based on the best available information as noted in Ofgem's recent Direct Debit arrangements 'initial findings' report.

Despite the above observations, there are also a few issues that needed clarification in regards to the Draft Modification Report.

The first is the inconsistency between AQ Validation increases and decreases contained under validations in page 2 of the Draft Mod Report. AQ increases take effect without a Shipper challenging these, whereas decreases only take effect when a Shipper challenge takes place. There is therefore a risk that a backlog of outstanding work could result in a serious financial impact to a Shipper.

This provision could encourage Shippers to focus more on AQ increases to avoid erroneously high charges. Instead of the suggested approach introduced under Validations, should a tolerance be introduced here to protect instances where a Shipper could not carry out validations on some of the AQs in its portfolio? This tolerance should prevent Shippers focusing largely on increases and thus ignoring decreases.

As regards thresholds, the choice of elective DM would be abolished if a site, unless confirmed as DM by the User after remaining above DM threshold for three months becomes mandatory DM. Our belief is that the purpose of elective DM is to have a choice of sites that are to be confirmed DMs given the type of contracts and provisions available to them. If this is the case, is it appropriate to make subsequent changes to the DM Elective arrangements?

Implementation as part of Project Nexus would be RWE npower's preferred implementation timescale; this obviously depends on Ofgem's direction to implement. Assuming Project Nexus remains on schedule for 2012/13 rollout, it makes commercial sense for Mod 209's introduction tied in together with Project Nexus delivery. We believe this should provide for a more cost effective approach for the industry as a whole.

Introducing this regime prior to Nexus will defeat this purpose as Shippers may possibly be charged three times, User Pays approach if prior to Nexus; paying as part of Nexus and also internal system changes to accommodate for the Users Pays and then Project Nexus if directed for implementation by Ofgem.

RWE npower are in favour of reforming the current RbD process as it places an unfair cost burden upon RbD Shippers. A suitable step is to support the idea of creating a system whereby every time a meter read is submitted, the AQ of that meter is recalculated. This obviously does not solve the problem of RbD but goes some way to ensure that more up to date, and by inference correct, AQs are used to allocate costs between domestic shippers.

We appreciate the aims of the proposed modification but we feel that the potential cost could outweigh the benefits (in the interim) as we are uncertain what the developmental cost of Project Nexus would be. As mentioned earlier in this response, we are not in a position to offer our full support at this stage as we don't have the necessary information to determine what the benefits are given the industry drive for the introduction of SMART & AMR technologies.

On a final note, it would have been worthwhile to have the discussions on mechanics of operations (e.g. file formats, reporting timescales and methods, processes and procedures etc) at an earlier stage in the process as opposed to issuing the mod for consultation first and then setting up a workgroup to discuss mechanics of operations if and when implemented.

Should you wish to discuss any of the above please do not hesitate to contact me.

Regards,

Sham Afonja

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