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1st February, 2011

Inter-day Linepack Product consultation paper – ‘Open Letter’ January 2011

Dear Malcolm,

Thank you for the opportunity to provide comments on this open letter. This response is provided on behalf of the RWE group of companies, including RWE Npower plc and RWE Supply and Trading GmbH.

We see little merit in progressing the Modification Proposal¹ to implement an Inter-day Linepack Product. Whilst not possible to say the service will never be used, it offers no more than is already available in the market for managing imbalance risk or arbitraging price spreads. The fact that the service is discretionary, there will be uncertainty about volumes available and likely to be released late in the gas day further undermines its usefulness.

The proposed User Pays arrangements are unacceptable. Once again, NGG has raised a Modification Proposal to comply with a Licence obligation that it has accepted, yet argued for Users to pay for its implementation. NGG has proposed a system based solution, albeit now at significantly less cost than its initial solution, which it expects Users to fund. As a minimum, NGG must meet these implementation costs, although there might be a case for Users of the service to meet its ongoing operating costs via a transaction-based charge.

Our answers to the detailed consultation questions are set out in Appendix 1, below.

We hope these views are helpful and if you wish to discuss any aspect of them in further detail, please do not hesitate to contact me.

Yours sincerely,

By email so unsigned

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¹ 0337: Introduction of an Inter-day Linepack Product

APPENDIX 1: Open Letter Questions

Question One: Having read and understood the nature of the proposal, do you consider that the proposed service will provide your company with an additional, commercially viable, tool to better manage your commercial risks?

No, as it will not provide anything more than we are currently able to access in the market.

Question Two: Are you likely to utilise the Inter-day Linepack service and if so what would determine how much you would seek to purchase?

It is unlikely, although It is difficult to say as it will depend on price differentials and prevailing market conditions. However, the fact that the linepack service is discretionary, there will be uncertainty about volumes available and released late in the day further reduces its usefulness.

Question Three: Do you consider that the potential pricing range of the Inter-day Linepack Product represents a commercial opportunity to your company?

There will be a number of factors that determine whether it represents a commercial opportunity.

Question Four: Do you believe that a zero reserve price is appropriate for this Product?

Yes, as this may reflect Users' valuation and any costs will reduce the relative attractiveness between using this service and alternatives.

Question Five: Do you consider that the indicative recovery period estimated by NGG Transmission is appropriate? If not, do you consider that the recovery period is likely to be over a greater or shorter timeframe?

The assumption about the level of utilisation of the service is optimistic as we are not convinced that there will be much interest. On this basis, the recovery period is likely to be longer.

Question Six: From the table detailed above for each of 1) the initial Implementation cost; and 2) ongoing OpEx cost, which options would you wish to see taken forward as the User Pays cost recovery arrangements for MP0377?

To the extent that the costs are recovered from Users rather than NGG, we prefer Option B for both sets of costs as this targets the costs at users of the service. We are unclear why recovery should be time-limited and therefore why under recovery is smeared back to all Users.

Question Seven: Are there any other User Pays Cost recovery options you would like to be considered?

We believe that this proposal has marginal benefits for Users and that as it is being raised to comply with an NGG Licence condition it should be funded by NGG.

Question Eight: Do you envisage any other products being positively or negatively impacted by the introduction of the Inter-day Linepack Service?

We expect the uptake of the Inter-day Linepack Service to low, so it will have minimal impact on other products.

Question Nine: Do you have any views regarding the development and implementation of an Inter-day Linepack Product Quantity Release incentive placed on NGG? What interactions would such an incentive mechanism have on other existing Incentives?

We do not agree with introducing a new incentive on NGG. If one were introduced, it would interact with the existing linepack incentive and might also impact NGG's balancing behaviour more generally where releasing Park or Loan quantities that did not net off resulting in the need for a balancing action.

Question Ten: Do you have any other issue or views you wish to express regarding the proposed introduction of the Inter-day Linepack Product?

From workgroup discussions, it is clear that there is little, if any industry support for the introduction of this product. It has only been raised as a consequence of NGG accepting a Licence condition to do so and it should be assessed in that light.

Question Eleven: Do you have any views you wish to express regarding areas that you consider may improve the Inter-day Linepack Product as proposed in MP0337, such that it would better facilitate the needs of Users?

The fact that it will be a discretionary quantity, there will be uncertainty about volumes available and released relatively late in the day undermines its potential usefulness.

Question Twelve: In order to enter into the LinePack transactions envisaged by MP0337 NGG believes that Users will need to consider whether they are FSA authorised to do so, or if not, whether they are outside the scope of the FMSA authorisation requirement at all times by taking advantage of an exclusion from such authorisation. Respondents are therefore requested to indicate whether they have considered this matter and if possible indicate whether they are FSA authorised or subject to the appropriate exclusion.

We have not considered this matter.