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Agency & Governance Arrangements – Regulatory Impact Assessment

Dear Sonia,

RWE Innogy, and its associated npower gas supply/shipping businesses, welcomes the opportunity of commenting on the above document.

The role of the agency and the governance arrangements applied to industry codes, charging methodologies and system development are issues of major concern to shippers post DN sale.

Whilst we support Transco being allowed to sell their DN assets if it can be clearly shown that substantial benefits will arise through cost reduction and development of more innovative solutions, we are understandably concerned about the cost implications this could have on our business.

The allocation of roles and responsibilities between the NTS and DN networks, which we have commented on separately, will have an influence of the nature of the Agency arrangements. However, we are keen to ensure that the responsibilities of the Agency and the governance arrangements that are in place ensure that shippers continue communicating with all network operators through a single system interface and are governed by unified industry arrangements, both from day one and in the future.

This will ensure that shippers exposure to the costs of fragmentation and the divergence of interfaces, systems, codes and methodologies is limited and that shippers are not overly burdened with extra costs as a result of a decision by Transco to sell DN assets.

The attached appendix details each of the core operational and systems related activities identified in the document. Against each activity we have described who we believe is best placed to undertake this activity and why.

However, as well as considering the role of the Agency, it is equally important to consider the administration, development and governance of the codes, methodologies and systems that underpin the operational activities carried out by the Agency.

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In our opinion governance will be the key defining factor determining the extent to which shippers are exposed to increased costs from DN sales.

Whilst DN owners will wish, and should be allowed, to develop their own network codes and charging methodologies it is vital for shippers that that this is not done in isolation. This is important because what may appear to be a relatively minor amendment from a DN's perspective could lead to shippers having to make substantial changes to their systems to accommodate its application in just one network. For example, a new flag or marker will probably require shipper databases to be changed to record this but if the marker is to apply only in certain DNs then changes may need to be made to systems that generate dataflows and in file validation processes. If shippers can not justify the cost of implementing these systems changes they may have little choice other than to adopt manual work arounds, which will increase resource requirements and increase the likelihood of errors occurring.

The costs to the Agency of systems development will also rise and further complexity is likely to arise in the change of supplier process. This could have a damaging effect on supply competition if switching rates reduce and new entrants are discouraged from entering the market.

One could therefore, easily envisage a number of different versions of the same core system developing over time and this represents by far the biggest risk to shippers of DN sales. Introducing a new relevant objective requiring the Authority to consider the costs of potential industry fragmentation will give some re-assurance to shippers about these risks. However, it does not prevent the situation from arising in the first place, and if Ofgem are strongly in favour of a change proposal which meets one or more of the other code/charging methodology objectives, they may be inclined to downplay the importance of this objective in their implementation decision.

In our opinion the most appropriate way of ensuring against future fragmentation of shipper systems and process is to adopt uniform network codes and charging methodologies that all network operators are bound by. In the case of network codes all network owners and shippers would become party to a new single uniform network code (with certain sections applying to the NTS, DNs and jointly) which any party could propose changes to. Similarly in the case of transportation charging methodologies a uniform structure for recovering charges (e.g. capacity, commodity, customer charges) would need to be adopted. Whilst a network owner would have the right to vary these charges, or alter the extent to which each component is used to recover charges, any new component, or change in the mechanics of the component (e.g. using pressure tier as the basis for LDZ capacity charging), would have to be adopted uniformly by all network owners.

In the event that system changes were required to effect an agreed change to the uniform code/charging methodology, shippers would have the certainty of knowing that they would only have to manage one set of changes to their systems. They would not therefore be exposed to the prospect of having to develop their systems and processes to apply differently depending on the network in question.

Establishing a Governance Entity within the scope of the Agency would seem an appropriate method for ensuring that changes to the single uniform network code, the common transportation charging methodology structure and the systems used by the Agency to manage its activities are administered in an efficient and non-discriminatory manner. However, further consideration needs to be given as to whether the current modification rules and UK Link governance arrangements are appropriate for a Governance Entity operating in this capacity, and in particular how the final modification report should in future be compiled.

Finally, considering the options regarding the role of the Agency, none of those described exactly reflect our view of what activities the Agency should be responsible for post DN sale. Option B, with a slight preference for sub option 2, most closely reflects our view. However, this option excludes connections

activity from the scope of the Agency, and as stated in the appendix, we firmly believe this should be an Agency activity.

In summary we believe that DN sales represents a significant risk to shippers which if not adequately addressed will have a material financial impact on them. This in turn would lead to increased costs to consumers and could suppress supply competition.

The establishment of an Agency is an essential requirement for mitigating the risks faced by shippers from DN sales. However of equal importance is the establishment of a single uniform network code and a uniform structure for charging methodologies. Ownership and governance by the Agency of the systems and processes it uses to carry out its activities is also essential.

Over time we hope that the introduction of an Agency will provide shippers greater scope for improving the core SPA systems and processes for the benefit of themselves and customers. We also hope that an Agency will pro-actively offer services to IGTs such that they too will be encouraged to adopt dataflows and processes that are common across all networks and to all shippers.

We would welcome the opportunity of discussing our response with you in person and should you wish to do so, or should you require clarification of our response, please do not hesitate to contact me.

Yours sincerely,

Steve Rose
Economic Regulation