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3rd Party Proposal: Publication of Near Real Time Data at UK sub-terminals – Impact Assessment

Dear Sonia,

RWE npower welcomes the opportunity to comment on the above document.

As we stated in our response to the energywatch modification proposal we fully accept the premise upon which it is based, namely that greater transparency of information regarding gas flows at sub terminals is likely to promote efficiency in traded gas markets. As such we gave the proposal our qualified support.

However, we were keen for the modification not to be considered in isolation and that recognition should be taken of the fact that Ofgem were also consulting on Offshore gas information disclosure and that future release of offshore gas information was imminent.

Bearing in mind the sensitivities surrounding the perceived costs and benefits of the modification proposal we welcome Ofgem's decision to carry out an impact assessment.

Our response to the specific questions raised in the impact assessment is included in the attached appendix. However, as a general comment, whilst we still have concerns regarding the lack of clarity of the data that will be provided and the real extent of Transco's implementation costs and confidentiality restrictions surrounding offshore data, we believe the impact assessment supports acceptance of the modification proposal.

Should you wish to discuss our response in more detail please do not hesitate to contact me.

Yours sincerely,

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RWE npower's response to the specific questions raised in Ofgem's Publication of Near Real Time Data at UK sub-terminals impact assessment

Clarity of the legal text accompanying the modification proposal

The draft legal text presented in Appendix 2 raises a number of issues that would benefit from wider industry discussion. We note the reference in the impact assessment that Transco NTS intend to discuss this at a modification workstream and welcome this approach, although it would have been opportune to do this whilst the consultation period remained open.

The first issue raised by the legal text that would benefit from industry discussion is the caveats included in paragraph 5.9.2. Whilst we understand the reasons for including these caveats and are prepared to accept that they may well be appropriate, this will depend on other circumstances which are themselves subject to this consultation.

For example, it has been already recognised that a consequence of this proposal may be that market volatility increases as a result of the market misinterpreting errors associated with data capture. To give Transco the right to withhold information on the grounds that it may be misleading therefore may not be appropriate. This is particularly relevant if the information to be provided is on a near real time basis as opposed to within one hour of the end of the hour to which it relates.

Bearing in mind the issues raised in the consultation regarding confidentiality of information, it also seems premature to include a caveat that allows Transco not to disclose information where it is affected by virtue of an obligation of confidentiality to the provider.

We also believe that the format of the data to be released requires further industry discussion so as to ensure that if the proposal is implemented it will meet the expectations of all industry parties and achieve the benefits claimed of it.

The principle underpinning the modification proposal is for near real time gas flow data to be made available at sub terminal level. This no doubt means different things to different parties and depending on that interpretation will involve varying degrees of difficulty and cost to implement.

Transco's interpretation of what this means seems to be based largely on the format of information currently being disclosed under phase 3 category 2 of the voluntary information release scheme, with tabular data being updated hour by hour. However, assuming that this phase 3 information will continue to be made available (including category 1 information shortly) our preference would be for this data to be made available within a shorter timescale than within an hour of the end of the hour to which it relates.

This being the case we believe it would be necessary for the data to be presented in both a downloadable and viewable form and would question whether an average flow rate in MSCM per day is appropriate compared to a snapshot of the hour by hour flow rate.

Baseline for the cost benefit assessment

We agree with Ogem's view that the baseline for the cost benefit assessment of this modification proposal should be the position whereby all the information that was envisaged would be released under the voluntary information release scheme is being made available. This will ensure that only the incremental costs and benefits of the proposal are considered.

We also agree that some of the costs identified in the final modification report are not tangible and are more reflective of the risk of achieving the perceived benefits rather than direct costs in their own right.

Impact of the proposal on economic signals

We recognise the difficulty involved in trying to quantify the impact this proposal may have on improving economic signals and the efficiency of arbitrage between gas and electricity markets but welcome Ofgem's attempts to do this in relation to market rumours.

To this extent we believe it appropriate from a qualitative perspective to assume that the impact of this proposal compared to the baseline is likely to be low as the bigger benefits are more likely to arise from having actual flow information available to the market as a whole.

Nevertheless, the proposal may give market participants a better and more timely understanding of the sub terminals ability to achieve the forecast peak delivery capability that has been assumed in Transco's 10 year statement/Winter Outlook report (a particularly pertinent issue for the next two winters) and increase the likelihood of gas and electricity arbitrage in response to locational signals.

We do not believe that the modification proposal will do much to help end user customers initiate actions and make more informed decisions directly, when compared to the baseline. However, there may be rare occasions where shippers are able to present mutually beneficial options to their customers based on informed information were the modification proposal to be implemented.

Impact of the proposal on system balancing

It is reasonable to expect that over time market participants may be more able or willing to adjust their positions to appropriately take account of changes in supply-demand balance as a result of more supply side information being available. However, we believe the majority of the benefit arising from this will result from the baseline position not from this proposal, particularly bearing in mind Transco's predilection for using Market Transactions to balance the system.

Ofgem have made a legitimate attempt to quantify the impact of the proposal on system balancing costs but we believe it would be more appropriate to regard 80% (as opposed to 50%) of the £5m benefit being attributable to the baseline, making an incremental benefit of £1m p.a.

Impact of the proposal on market volatility and market perception

As stated in our response to the modification proposal implementation of this proposal could lead to an increase in market volatility, particularly in the prompt market, and result in trading parties front running those asset/contract owners that have had a curtailment event.

However, over time we believe the market will learn to react and adapt to the greater visibility of supply side events and to use that visibility to create further opportunities to trade away market inefficiencies.

The modification proposal should go along way towards creating the perception amongst non upstream participants that they are able to trade safe in the knowledge that there is not some key information regarding within day gas flows which is driving market fundamentals that they are unaware of.

We believe that proposal, combined with the continued publication of information under the voluntary release scheme, is likely to reduce the bid/offer spread and that Ofgem's view of the impact this will have is reasonable.

Impact of the proposal on liquidity

The modification proposal by helping to negate the information asymmetry that current exists between shippers with upstream assets and those with downstream/trading interests may help to improve liquidity in the prompt market. However, we agree with Ofgem's view that this impact is likely to be only marginally greater than the baseline position.

Impact of the proposal on security of supply

The modification proposal by giving greater visibility of storage flows and specific beach entry flows should increase the probability of market participants reacting to these changes more efficiently, thus contributing towards enhanced security of supply. However, we agree with Ofgem's view that this impact is likely to be only marginally greater than the baseline position.

Impact of the proposal on consumers

As previously stated we do not believe that the modification proposal will do much to help end user customers initiate actions and make more informed decisions directly when compared to the baseline.

Instances of end user customers monitoring this information on an hour by hour basis are likely to be extremely rare, and to the extent any monitoring is undertaken the information provided under Phase 3 category 1 of the voluntary release scheme should be sufficient to highlight that there has been a supply side event which may create circumstances in which it is in their interest to offer up demand side response. If such circumstances were to arise an end user customer is unlikely to be further deterred or encouraged to offer up demand side response by having a better understanding of where the supply side event has occurred.

Impact of the proposal on the environment

We do not believe there will be any environmental impact arising from the baseline position or from this modification proposal.

Impact of the proposal on IT costs

Whilst we have no great insight into the workings of Transco's IT systems we are surprised that publication of information envisaged under this modification proposal should be significantly more complex than publishing aggregated information on a north south basis as Transco seem to have adopted the format for releasing Phase 3 Category 2 information as the basis for releasing disaggregated information under Annex V –1.

Whilst we understand why analysis of Transco's system development costs/timescales has only been undertaken at a high level we would expect this to be done at a more detailed level once the exact data requirements have been agreed by the industry as a whole. This may result in implementation costs exceeding the high level estimate, although it would seem highly unlikely that this will offset the potential benefits arising from the proposal.

Assuming the information is published in an easily downloadable form we do not anticipate incurring material costs in developing our own systems to capture and assess the impact of the information released.

Assessment of the level of risk of liability to Transco NTS and the probability of those risks materialising in legal dispute

As we are not a party to the agreements between Transco NTS and the DFOs we are not best placed to comment on Transco's level of risk of liability or the probability of those risks materialising in a legal dispute.

However, based on Ofgem's analysis of these issues within the impact assessment we too remain to be convinced that this is a material consideration.

Impact of the proposal on the potential costs related to contract renegotiation

Once again as we are not a party to the agreements between Transco NTS and the DFOs, or between DFOs and producers, we are not best placed to comment on the need for or the costs associated with contract re-negotiation.

However, from Ofgem's analysis of this issue within the impact assessment it would appear that this issue may be limited to legacy agreements only.

As a counterparty to a number of beach gas supply contracts we are not aware of any clauses within these contracts which would prevent the information envisaged under this modification proposal being disclosed, or which would need to be renegotiated.

Risk of withdrawal of information by producers arising from the proposal

As stated in our response to the modification proposal we would be concerned if Ofgem's acceptance of it were to result in producers withdrawing information they have agreed to provide under the voluntary release scheme or information provided to the market under Phase 3 of the scheme being withheld.

However, as Ofgem point out the link between the information provided to Transco by producers (to aid the TBE process and to indicate planned maintenance periods) and the information covered by this proposal is not clear. The risk of withdrawal of Phase 3 information is perhaps not as significant as first thought therefore.

In our opinion the proposal includes sufficient safeguards to ensure that the information released is not to the commercial detriment of any one party, or to parties generally. We would therefore agree with Ofgem's view that if producers were to withhold information provided under the voluntary release scheme this could be regarded as being unreasonable.

This issue is pertinent to the Ofgem's consultation on offshore gas production information disclosure. In the event information is withheld or legal action is initiated to protect confidentiality as a result of this proposal being accepted, this may influence Ofgem's conclusions in relation to this consultation.

Risk of requirement for duplicate metering arising from the proposal

We agree that installation of duplicate metering should be regarded as a consequent risk of implementing the proposal rather than a direct cost. We also agree that installation of duplicate metering would be an inefficient way of acquiring physical gas flow data at sub terminal level and that re-negotiation of contracts between Transco and DFOs (if required) would be a more efficient option.

In the unlikely event that duplicate metering were to be required to make this information available to the market, the cost of this would seem to outweigh the benefits arising from the proposal. However, it is arguable whether any investment in duplicate metering by Transco would constitute efficiently incurred investment for the purposes of price control, and so if these costs were not allowed to be passed through to shippers it may still be appropriate to proceed with the modification proposal.

Risk of data inaccuracy arising from the proposal

In the event this modification proposal is approved and near real time gas flow information is to be released to the market it is important that this information is released in such a way as to ensure that the benefits associated with it can be fully realised. We therefore agree with Ofgem that the information to be released should be user friendly, understandable, usable and available to all and we look forward to further industry wide discussion as to how this can best be achieved.

Whilst there is merit in ensuring as high a level of confidence in the published information as possible, it has to be recognised that to provide data as close to real time as possible will necessarily involve some level of data inaccuracy.

Risk of data ownership arising from the proposal

Not being party to the agreements between Transco NTS and the DFOs/producers we are not best placed to comment on the ownership and confidentiality obligations surrounding data exchanged under these agreements. However, it would appear from Ofgem's comments that there still remains some doubt as to the extent to which data is owned and can be disclosed by Transco.

Having previously given assurances that Ofgem would be unlikely to approve modification proposals which required Transco to disclose information provided to it on a confidential basis it would seem inappropriate now to change that view based solely on the assumption that acceptance of that proposal is less likely to result in Transco being exposed to material risk of contract liability. However, if non-prejudicial legal advice indicates that it is doubtful whether disclosure of information would constitute a breach of any confidentiality provisions in these agreements then such a stance could be considered appropriate.

Summary of costs and benefits and risks and unintended consequences of implementing the proposal

Taking note of our comments above we are broadly supportive of Ofgem's summary of the costs, benefits and risks of the proposal compared to the baseline and believe that the impact assessment justifies acceptance of the modification proposal.