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16th January 2006

**Publication of Near Real Time Data at UK Sub-Terminals (UNC Modification Proposal 006) - Ofgem Impact Assessment - Case Study**

Dear Hannah,

This letter covers the response of RWE npower and RWE Trading to your letter of the 10th January regarding the above.

As previously stated in our letter of the 14th November 2005, we do we do not believe that publishing snapshot actual flow information at a sub terminal and on a near real time basis will lead to any appreciable incremental benefit to market participants.

Looking at the two case studies presented, and the questions you have asked, we would make the following response.

1) *How you would have behaved in the above examples, with current information? In particular, how you would have reacted to the drop in line pack and its coincidence with an increase in the price of gas.*

RWE Trading's gas traders monitor forecast system demand, projected closing linepack, actual and forecast physical flows and OCM prices on a regular basis throughout the gas day and use this information to form a view of the daily supply/demand balance and cash out prices. Their gas nominations and trading activity is then driven by that view in a manner intended to optimise their commercial position.

They also record actual demand and supply data published after the day and use it to aid their understanding of short and longer term demand/supply fundamentals and market drivers.

In both of the case studies highlighted in your letter they would quickly have become aware of the hourly deterioration in linepack and the impact this was having on within day (and possibly future days) prices. By reference to the actual and forecast flow data they may also have been able to attribute this to a decline in flow at either the northern or southern entry points, suggesting the potential for an outage at certain sub terminals.

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As a result of discussions they routinely have with brokers, traders and newswire services they may establish there has been an outage, or that there is rumoured to be an outage, at a certain field or entry point. This may be confirmed by the trading activities of parties assumed to be affected. However, it is unlikely they will be able to (at least initially) glean much information about the scale and expected duration of any suspected outage, and they can only optimise their position throughout the day and for any subsequent days based on known information at any point in time.

2) *How your behaviour would have changed in the examples outlined above if near to real time sub-terminal flow data was available?*

The availability of near real time sub flow data may have helped narrow down the cause of the deterioration in linepack by referencing it to a particular drop in flow at a sub terminal. However, due to the inherent variability arising from flow data based on snapshots at a particular point in time and the considerable scope for measurement error we would expect there to be some time lag (of the order of two to three hours) before a trend could be established with sufficient certainty to support this view.

During such time information may filter out to the market or buying patterns may emerge to suggest there has been an outage at a sub terminal, field or storage facility, and zonal flow data may back up market suspicions.

However, even if near real time sub terminal flow information were to give a strong indication that an outage had occurred at a field or storage facility conveying gas to a sub terminal, it would still not necessarily identify the field in question. Nor, more importantly, will it give any indication of the nature and extent of the supply difficulty or the duration of any resulting outage

We do not believe therefore that having access to this extra information will change the way we currently operate in the market as how we optimise our commercial position on the day will still continue to be driven solely by information known at the time. Although we may be better able to identify the location or identity of a potential outage, unless we have a greater understanding of the reason for it and its potential duration the actions we take to optimise our commercial position will not in any way differ.

3) *What benefits you would envisage as a result of the release of near to real time sub-terminal data in the examples above?*

As stated above we do not envisage there being any benefits arising from the release of near real time sub-terminal data and believe the opposite may be the case.

The principle justification for the modification was that it would reduce within day volatility and promote greater liquidity, resulting in a lowering of the bid offer spread in the prompt and forward markets. This has clearly not happened since the publication of actual zonal flow data in July 2005, as might have been expected, and we are sceptical whether it will happen in future bearing in mind the current demand/supply balance and trading environment.

Offshore fields do not always flow at a flat rate throughout the day if small maintenance jobs or pipeline pigging operations are carried out. Making near real time data available may therefore result in the market over reacting to perceived problems thereby increasing volatility and unnecessary balancing action. Whilst one could argue that the market will learn to adapt to such events and take a more cautious response based on flow trends over time it should be noted that such events will be fully reflected in projected closing linepack data and actual zonal flow data (albeit in aggregate), which are updated each hour.

If anything further does need to be done to improve market efficiency we believe it should focus on the information provision requirements of terminal operators. Any improvement in information provision at

this level should ensure the market has the most up to date and accurate view of projected closing linepack rather than having to interpret individual sub terminal data which will be constantly changing.

4) *What costs you would envisage that you may incur as a result of the release of near to real time sub-terminal data in examples 1 and 2 above?*

As previously stated RWE Trading regularly monitors the demand, supply and price information currently available (using screen scraping techniques) and uses automated alerts to notify it of significant changes to that information.

In the event near real time information were to be made available we would need to consider whether to upload this into our trading information systems too. Bearing in mind there are twenty six storage and sub-terminal entry points in total (although some of these would be excluded due to the 10mcm threshold) and that data is expected to be refreshed every 12 minutes, our current view is that it is unlikely we will. We are also not clear whether each refresh will show six two minute flow rates or one aggregated flow over six two minute periods, and if the former this would add further complexity to the data capture and upload process.

Instead we would currently expect to use near real time data as a cross reference to the existing hourly linepack and actual/forecast flow data we currently do upload, and continue to capture sub terminal specific data after the day (such data is made readily available by midday on the day following the end of a gas day).

In the event we were to upload it we would also have to introduce extra processing to reflect the fact that not all sub terminal and storage data would be published. This is likely to require near real time data to be substituted from actual zonal flow data, and the fact that these reports will be published at different times and frequency will further complicate the process.

The release of near real time data is also likely to result in trading companies attempting to front run producers, shippers and storage operators who may experience supply difficulties. This will increase the likelihood of parties becoming distressed buyers and of market volatility increasing, neither of which we welcome. It could also lead to unforeseen market developments, such as causing storage operators to amend their terms so as not to require them to keep storage user nominations whole.

Whilst near real time information might be seen as a step to resolving information assymetries that are felt to exist between producers/trading parties with beach gas positions and those that trade at the NBP, we are not convinced that it will increase liquidity in the prompt market. Nor we believe will it help parties to gain a better understanding of why spiking prompt prices influence the forward curve. This is due largely to the fear that supply difficulties in general could be replicated in future, not that a particular field that has had a problem on any day will have a similar problem a month later.

We hope you have found our response helpful and would happy to discuss these issues with you in more detail should you consider this to be beneficial.

Yours sincerely,

Steve Rose
Economic Regulation
sent by e-mail so unsigned