RWE npower

Sonia Brown
Director, Wholesale Markets
Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

Your ref 88/06
Our ref LOG200
Name Charles Ruffell
Phone 01793 89 39 83
Fax 01793 89 29 81
E-Mail charles.ruffell@rwenpower.com

23rd June, 2006

Potential new System operator quality of information incentive schemes for National Grid Gas
May 2006

Dear Sonia,

We welcome the opportunity to comment on the issues raised in this consultation.

General Comments

In principle, we fully accept the premise that more accurate and timely information is likely to improve efficiency in traded gas markets. The Daily Summary Report developed over the past twelve months has provided significant additional operational market data to a wide audience.

The consultation proposes introducing incentives on NGG to improve its short-term demand forecasting and the performance of its information website. In our view, incentives may be appropriate to reward incremental performance above a baseline. The consultation document fails to establish whether Ofgem believes that National grid Gas NTS (NGG) is fully meeting its UNC and Licence obligations and therefore whether the proposed incentives are to deliver incremental performance or merely to achieve the required standard.

We are not convinced that additional incentives are necessarily required or appropriate in this case. NGG operate under an over-arching RPO obligation and within an incentive-based framework for its System Operation (SO) activities, notably for residual system balancing and linepack. Demand forecasting is clearly a fundamental component of NGG's decision making processe for system management and optimising its incentive revenue. The consultation refers to possible additional IT development work but there is little detail provided and it is unclear whether this work will benefit demand forecasting or website performance or both. Significant improvements to website performance and resilience have already been completed and further system enhancements are scheduled ahead of winter 2006/07. Again, this makes it hard to judge whether this work will deliver the required improvements without the need for additional incentives.

RWE npower
Trigonos
Windmill Hill Business Park
Whitehill Way
Swindon
Wiltshire SN5 6PB

T +44(0)1793/89 39 83
F +44(0)1793/89 29 81
I www.rwenpower.com

Registered office:
RWE Npower plc
Windmill Hill Business Park
Whitehill Way
Swindon
Wiltshire SN5 6PB

Registered in England and Wales no. 3892782

Scope of Benefits
We agree with Ofgem's assessment of the likely benefits from improving the accuracy of NGG's demand forecasting. Benefits will arise directly where improved demand forecasts allow shippers to manage better their own positions and indirectly as NGG's residual balancing actions may be reduced. We support the concept of the gas merit order as a useful construct to identify the issues and agree that the distortions could arise as described. The materiality of the distortion will be driven by the gas costs assumed and these are necessarily subjective, as they will be based on assumptions. The assumptions are reasonable but probably at the top end of a realistic range.

We do not agree that the proposed website performance incentive will deliver the suggested benefits. The publication of the 5-day ahead demand forecast has already been agreed and it will be included in the Daily Summary Report. The accuracy of this forecast will be improved under the scope of the separate demand forecasting incentive scheme and to include it here again is arguably double counting. The proposed website incentive scheme focuses on the availability and timeliness of certain key data screens. While we do recognise that such improvements are beneficial, we believe that the ongoing, already planned improvements will be sufficient to address any concerns.

What is not clear to us is how incentivising incremental improvements around availability and timeliness metrics that are already over 98% will allow the large I&C customers to make better informed trading decisions. It is our understanding that these customers cannot actually respond to this data in close to real time but use it to take decisions at the day-ahead stage and for assessing the likely system status over the upcoming week. On this basis, the albeit modest benefits set out in the consultation may not be achieved. Perhaps there could be some further clarity in this area provided in the Final Proposals planned for July 2006 or at the next DSWG.

At this stage we do not support a website performance incentive and the following comments relate only to the demand forecasting incentive.

Scope of Incentives
The D-1 14.00 demand forecast is the correct performance measure. Although the total system demand forecast is proposed, we would see merits in a disaggregated forecast. NGG has little ability to influence the DM demand and there is additional uncertainty due to unknown demand-side response. This may restrict NGG's ability to make the improvements expected under the incentive scheme. Much has been made of the deterioration of the DN forecast component post DN sales. By separating the DM forecast, NGG will be required to improve their forecasting methodology and the processes by which they obtain and incorporate the DN data into the forecast. It will also improve the transparency and visibility of an issue that we thought had been resolved as part of the final DN sales approval.

Form of Incentives
We support a two-sided incentive that has a symmetrical downside and upside set at +/-£4.6m, i.e. at the level proposed for the one-sided incentive. It seems incorrect in principle to introduce an upside-only incentive.

Duration of Incentives
We agree that a more fundamental analysis may be required to implement enduring arrangements and support the six month period proposed.

Cost Recovery
The costs or payments should be dealt with through the SO commodity charge.

We hope these views are helpful and if you wish to discuss them further please contact me on 01793 893983.

Yours sincerely,

By email so unsigned

Charles Ruffell
Economic Regulation