

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

Your ref 122/06
 Our ref CON008
 Name Charles Ruffell
 Phone 01793 89 39 83
 Fax 01793 89 29 81
 E-Mail charles.ruffell@rwenpower.com

24th August, 2006

**Potential new System Operator quality of information incentive schemes for National Grid Gas
 July 2006**

Dear Sonia,

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

In our response to the Initial Proposals consultation¹, we supported the introduction of a demand forecasting accuracy incentive. We still believe that this incentive has the potential to deliver benefits to the entire market. Generally, we welcome the proposal to introduce a two-sided incentive as we believe that it is important to incentivise maintenance of the current level of accuracy, as well as encouraging improvements. Our preference would have been for a disaggregated incentive, as this would force improvements to both NGG's NDM forecasting methodology and the processes by which they validate and incorporate the GDN data into the forecast. The improved NDM forecast, together with the DM demand forecast (reflecting demand-side response) would feed into NGG's system forecast which would still be required for system management purposes. Finally, we agree that the incentive should be set for six months in the first instance and be subject to review.

We are still not convinced of the need for the website performance incentive. As we argued in our response to the Initial Proposals, significant improvements to website performance and resilience have already been completed and further system enhancements are scheduled ahead of winter 2006/07. This makes it difficult to assess whether NGG NTS will simply be rewarded under the incentive for delivering improvements that are in train and presumably already funded. As proposed, the incentive design is extremely complex and we are concerned that the ongoing monitoring costs will outweigh any benefits. The document is silent on who is responsible for meeting the costs associated with independent monitoring of the website performance and whether these costs have been factored into the benefits calculation.

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

¹ Potential new System operator quality of information incentive schemes for National Grid Gas May 2006 88/06

In summary, although we see the benefit of a demand forecasting accuracy incentive this winter, we still believe that any review of the long-term merits of any broadly based information incentive schemes for NGG need to be considered in the context of NGG's UNC and Licence obligations and therefore whether the proposed incentives are delivering incremental performance improvements or merely rewarding NGG for undertaking core activities.

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