

Clare Sibly
Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

Your ref 17/07
Our ref LOG 339
Name Charles Ruffell
Phone 01793 89 39 83
Fax 01793 89 29 81
E-Mail charles.ruffell@rwenpower.com

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**Gas Quality Scenario Development and Economic Regulation workstreams -
conclusions
30th January 2007**

Dear Clare

We welcome the opportunity to comment on this conclusions document.

As the existing GS(M)R limits are narrower than those on continental Europe, there is a risk that gas flows into Great Britain could be constrained due to gas quality mismatch. Given GB's future reliance on gas imports as a consequence of declining indigenous supplies and the likely lead times to construct gas treatment facilities, we fully support Ofgem's initiative to consider the issues at this time.

It is clear that the extent to which gas quality differences will impact gas GB imports in the future is highly uncertain and will depend on, inter alia, on the development of new gas infrastructure in Europe, the extent of adoption of EASEE-gas standards and the source of the gas itself. Although individually shippers will know their contracted future level of gas imports and associated specification it is difficult to quantify the aggregate risk. It is not clear at this stage whether an individual shipper would be willing and/or able to make the necessary financial commitment to trigger the investment in gas treatment facilities.

In principle, we agree that the costs of any processing facility should not be socialised as this could lead to market distortions. For instance, the new LNG import terminals include processing costs in their gas price as they have built dedicated facilities. If processing costs were not correctly targeted to off-spec gas being delivered through shared facilities, then this would create an artificial competitive advantage. That said, how the approach could be made to work in practice when there are co-mingled streams and diverse supply sources, requires further consideration. There is always likely to be some element of smearing as individual supply sources will be "blended" in the local network before reaching the import pipelines and we are keen that the extent of this is minimised.

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

T
+44(0)1793/8
9 39 83

F
+44(0)1793/8
9 29 81

I
www.rwenpower.com

Registered
office:
RWE npower plc

In view of the uncertainty of whether a gas processing facility would actually be needed, Ofgem favours a regulatory approach based upon user commitment, to reduce the risk of asset stranding and to better target costs. We can see some merit in introducing a regime that places additional risk/reward on National Grid Gas, but remain to be convinced that shippers will be in a position to provide a sufficiently strong signal to underpin any investment. Further, we agree that new licence conditions are a necessary element to support the proposed approach.

A key benefit of the work streams was the insight provided into the technical options available and the likely scale of the facilities. From our perspective, it appears that any option needs to include nitrogen ballasting as this will remove the risk that there will be insufficient gas available for blending and would enhance security of supply to the GB market.

In conclusion, while we agree that Ofgem should push forward with developing the necessary licence conditions for National Grid Gas, it is the extent to which market participants wish to avail of a gas processing service that will be the key driver.

We hope these views are helpful and would be happy to discuss matters further.

Yours sincerely

By Email So Unsigned

Charles Ruffell

Economic Regulation