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### LNG Storage price control - Initial proposals

Dear Robert,

RWE npower welcomes the opportunity to respond to the above consultation and does so on behalf of all its licensed gas businesses and the UK business of RWE Trading GmbH.

We have little to add to the comments we made in our response to Ofgem's initial thoughts consultation and continue to believe that a price cap on the provision of regulated services is appropriate.

We recognise that Ofgem have now performed revenue and cost analysis over a three year timeframe due to the difficulties that may arise in introducing competition into the provision of operating margins services by 2009. However as this now extends this analysis to 2010/11, which is only one year prior to the expiry of the main transmission price control, we believe there would be merit it extending it a further year so as make the end dates consistent. Introducing competition within a four year timeframe will in our opinion be no less of a challenge, but in the event this can be secured regulated prices can still be lifted in 2009.

We are not in a position to comment on the extent to which it is more appropriate for Ofgem to rely on the opex and capex forecasts of its bona fide consultant, TPA Solutions, or those of National Grid LNG. However, bearing in mind National Grid LNG's projections are considerably higher, it is important Ofgem fully satisfy themselves that any increased capex/opex that may be allowed is justifiable, does not involve double counting and does not conflict with previous Ofgem policy statements in this area.

With regard to the revenues National Grid LNG are likely to earn through the sale of commercial storage services we continue to believe these will remain strong in the short to medium term. Whilst new storage facilities and gas entry points will undoubtedly be developed over the coming years none of these are likely to possess the unique capabilities of delivering large quantities of gas very quickly at short notice, which are typically associated with LNG storage facilities. Whilst from a capacity point of view the supply side of the gas market looks far healthier now than in the previous two winters, and may become healthier still over the next few years, uncertainty about whether gas will flow on a day, and if so from where, has increased. As GB becomes more dependent on gas imports and interconnected

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with European and world markets we would be surprised if this uncertainty were to diminish significantly in the short to medium term and so prices are likely to remain volatile, even if their overall level reduces. In our opinion LNG storage facilities will continue to be valued by traders and suppliers alike as a means of extracting value from and managing exposure to price volatility. We find it hard to reconcile this view with National Grid LNG's assumptions that their commercial revenues from LNG storage facilities are expected to drop by approximately 40% in future years.

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

Regards,

Steve Rose  
Economic Regulation

Sent by e-mail and therefore not signed