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National Grid LNG facilities price control – Initial Proposals November 2010

Dear Paul

Thank you for the opportunity to comment on these Initial Proposals. This response is provided on behalf of the RWE group of companies, including RWE Npower plc and RWE Supply and Trading GmbH.

The three storage facilities run by National Grid Liquefied Natural Gas (NG LNG) provide both regulated and commercial services. The demand for both the regulated and commercial services has declined since the last review and this has raised questions about the long-term viability of these facilities. We accept that NG LNG should be able to recover the efficient costs incurred in providing regulated services, albeit that this would result in significant increases in current price cap levels. Given the sensitivity of the level of the price caps to the cost and revenue assumptions used in the price control calculations, we agree that the price control should only deal with the short-term funding of the facilities until March 2013 and that long-term funding issues considered as part of the upcoming transmission and gas distribution price controls, due to be implemented on 1st April 2013.

Our answers to the detailed consultation questions are set out in Appendix 1, below.

If you wish to discuss any aspect of our response, please do not hesitate to contact me.

Yours sincerely

By email, so unsigned

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APPENDIX 1: CONSULTATION QUESTIONS

CHAPTER 2: Scope, Form and Duration of price Control

Question1: Do you agree with our Initial Proposals on the scope, form and duration of the control?

We agree that the proposals provide funding certainty in the short-term and will not interfere with the 2011/12 OM tender. The ongoing viability of the facilities against a background of falling regulated bookings and lack of demand from commercial services will need to be addressed. The long-term funding and regulatory issues should be considered as part of the upcoming transmission and gas distribution price controls, due to be implemented on 1st April 2013.

CHAPTER 3: Costs and Revenues

Question1: Do you agree with our Proposals on the differing treatment of depreciation and return between historic and future capex?

In principle, we agree with the proposed differential treatment. NG LNG need to be funded to meet safety and legislative requirements and it is reasonable to factor in the likely future mix of regulated and commercial services when determining the capex allowances.

Question2: Is it appropriate that NGG and SGN should be more exposed to the capex costs associated with provision of regulated services at Glenmavis?

If the obligation to provide the service lies with NGG and SGN, then it is appropriate that they are more exposed to the associated capex costs.

Question3: Do you think it is appropriate to include commercial revenue foregone in the consideration of price caps?

If the decision to withdraw capacity was a commercial one, then NG LNG should be exposed to the level of revenue foregone and this should be netted off when deriving the price caps.