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1st December, 2009

**Transmission Access Review – Enhanced Transmission Investment Incentives: Initial Proposals
November 2009**

Dear Cheryl,

We welcome the opportunity to comment on these Initial Proposals. This response is provided on behalf of the RWE group of companies, including RWE npower, RWE Supply and Trading GmbH and RWE npower renewables, a fully owned subsidiary of RWE Innogy.

Ofgem's Initial Proposals are based on a simple pragmatic approach to fund efficient costs, up to the end of TPCR4, for pre-construction work for all projects and construction work for specific projects. These projects will be identified based on criteria including the strength of the needs case and the readiness of the TOs to take forward the planned work. The development and application of new financial incentives on the TOs to encourage them to anticipate future demand from generators and to invest efficiently to meet that demand will taken forward under TPCR5. Logically, there will be a benefit if all transmission investment, assets and capacity is governed by the same regulatory framework, so it makes sense to align work on enhanced incentives with the outcome of the RPI-X@20 review.

We are broadly supportive of Ofgem's proposed approach, provided that it does not hinder investments or divert work on transmission projects that already committed in the existing price control. Furthermore, it is vital that funding is incurred efficiently and Ofgem's criteria appear to be a reasonable balance between ensuring commitment to strategic investment ahead of need and protecting consumers from inappropriate risks and costs. However, it is equally important that finite resources are not wasted on infrastructure that will not be utilised.

Rather than undertake wholly anticipatory investment, the case for which may be poorly defined, our preference would be for this investment to be guided, at least in part, by user commitment.

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This will minimise stranding risk as transmission assets will be constructed where users, who are willing to commit, require them. Consequently we believe that a proportion of the investment costs should be underwritten by users in the form of final sums, generic user commitment or some form of long term commitment to pay transmission network use of system tariffs. This would help to establish a strong needs case for the investment. In addition, there should be arrangements for terminating work on projects if the case in favour of investment is impacted by any change in circumstances (such as users terminating connection agreements).

We hope these views are helpful and if you wish to discuss any aspect of them in further detail, please do not hesitate to contact me.

Yours sincerely,

By email so unsigned

Charles Ruffell
Economic Regulation

ATTACHMENT 1: CONSULTATION QUESTIONS

CHAPTER 2: Developments following September consultation

Question 1: *Do respondents consider we have appropriately summarised the views of respondents to our September consultation?*

We have no comments on this matter.

Question 2: *Do respondents have any comments on the initial findings of our consultants or views on the issues raised by the TOs?*

We have no comments on this matter.

CHAPTER 3: Initial Proposals

Question 1: *Do respondents have any comments on our proposed funding framework for additional investment within TPCR4?*

We support work on anticipatory investment within TPCR4 provided that there is a strong need case for the work supported by user commitment for a significant proportion of the investment cost.

Question 2: *Do respondents have any views on the appropriate funding mechanism for provision of pre-construction funding?*

It seems appropriate to fund the investment on a revised incentive basis under the existing price control and review further commitment in TPCR5.

Question 3: *Do respondents have any views on our proposed approach to identifying projects eligible for construction funding?*

We believe that work on priority projects should be underwritten by some form of user commitment. Projects eligible for construction funding should be prioritised by the level of user commitment. Without detailed information of the information reviewed by the consultants it is difficult to comment on the priority list identified in the consultation document.

Question 4: *Do respondents have any views on our proposal to fund construction costs up to the end of TPCR4 for specific projects? Do respondents agree that it may be appropriate to provide funding up to an earlier end date for projects in certain circumstances?*

It seems sensible to review project commitments identified by this consultation as part of TPCR5. This will enable confirmation of the need case and ensure that a fully resourced and deliverable programme of works can be identified for funding.

Question 5: *Do respondents agree that the same rate of return should apply as for other investment undertaken within TPCR4?*

We do not believe that there is a case for altering the funding arrangements for these anticipatory investments as part of TPCR4.

Question 6: *Do respondents have any views on the appropriate treatment of projects beyond TPCR4 or on any interaction with our decision on the timing of TPCR5?*

TPCR5 should include a review of all projects to ensure that a fully resourced and deliverable programme of works can be identified for funding.

Question 7: *Do respondents have any comments on any other aspect of our Initial Proposals?*

We have no further comments.

CHAPTER 4: Way forward

Question 1: *Do respondents have any views on our proposed approach for taking forward our work on TO incentives to facilitate further investment within the current transmission price control?*

The approach appears sensible and pragmatic.

Question 2: *Do respondents have any views on our proposed consultation process going forward?*

We have no comments on this matter.