



Frances Warburton
Head of Gas Networks Regulation
Ofgem
9 Millbank
London
SW1P 3GE

June 16th 2004

Dear Frances,

The following comments are made on behalf of all of RWE npower's gas supply and shipping businesses.

We welcome Ofgem's consultation on the structure of distribution charges to address concerns about the their cost reflectiveness and a review of connection charging methodology. With regard to the review of distribution charges we believe that other discussions currently underway should be concluded first so that the debate can be had in the knowledge of any other developments. We welcome the review of the connection charges in the gas market.

Transco's distribution use of system charges:

Ofgem discuss various scenarios, which could influence the cost of supplying services to the customer. We are concerned that some of the conditions that have been identified could increase the likelihood of regional pricing and have an adverse impact upon disadvantaged sections of the community, which Ofgem is charged with protecting. The review in 2000 concluded that whilst there may be benefits of increasing the cost reflectiveness of the charges, the practical and administrative drawbacks of such a move meant that the status quo should be maintained. We believe that the logic supporting this earlier decision still stands.

Review of the Capacity / Commodity Charge split:

It is apparent that the present 50/50 split discriminates against the larger industrial user, and that the larger I & C market might welcome a shift towards the 90/10 split. Additionally, the sector with the greatest benefit to be gained from a shift away from the 50/50 split would be the interruptible market. We are concerned that the impact of a shift away from the 50/50 split will be felt by the much larger residential market, and may adversely affect that sector of the market least able to manage its effects. We note that Ofgem themselves acknowledge that one of their responsibilities is to protect the financially disadvantaged. Additionally, since issues surrounding interruption are subject to a RIA by Ofgem on Exit reform, we believe that this debate should be concluded before any changes to the capacity /commodity charging split are considered.

RWE npower
Oak House
Bridgwater Rd
Worcester
WR4 9FP

Direct Line 01905 340 720
Mobile 07989016
Email: Simon.howe@npower.com
www.npower.com

Registered Office
Npower Limited,
Windmill Hill Business Park,
Whitehill Way, Swindon, SN5 6PB.
Registered in England & Wales: No 3653277

Distribution Charging Boundaries & Economic Test and asymmetry issues

We recognise the benefits to be gained from more shallow connection charges and believe that a move towards this would be consistent with similar moves in the electricity market. We welcome the review the economic test and consideration of some element of asymmetry and this should, in our opinion, be sufficient for now. We think that a move away from a policy that requires a customer to make some contribution towards reinforcement will have implications for Transco in fulfilling its licence condition to develop an efficient and economic pipeline.

The impact of Relative Price Control:

We consider that RPC regulations should not have a direct influence on the development of Distribution Charging methodologies. Equally IGTs should have the same rights on consultation as any other party but should not be entitled to any special consideration.

The separation of Transco's distribution price control and the potential sale of Transco's Distribution Networks:

These have been the subject of numerous meetings and papers, which have identified the potential dangers to costs from a fragmented approach. A lack of consistency in charging methodologies combined with separate DN price controls will exacerbate the problems of regional pricing. Therefore, we determine it necessary that the Governance Entity and licensing framework necessary for DN sales should put in place robust arrangements that prevent divergence in DN charging methodologies. If this does not happen studies have shown that the cost for shippers will have a detrimental impact upon the level of potential savings from the sale of DNs.

Yours sincerely

Simon Howe
Gas Network Codes Manager

RWE npower
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Bridgwater Rd
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