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### **18/05: Regulation of Independent Electricity Distribution Network Operators**

Dear Mark,

Thank you for the opportunity to respond to the above consultation.

We agree that the benefits of a RPI-x mechanism based on the costs of the IDNO would be outweighed by the regulatory burden imposed. Therefore we support the Authority's proposal '1' that sets a floor and ceiling based around the DUOS charges of the incumbent DNO. However this approach seems to suggest that similar charging methodologies would be used by both the incumbent DNO and the IDNO which may not be the case. This would make any comparison more difficult. Using the April 2006 charges would avoid the impact of revenue adjustments in the first year of DCPR4 but would not guarantee that issues of over or under recovery will not arise in future years. We believe that non-discriminatory provision under SLC4 is sufficient to protect non-domestic customers.

We agree that further consideration is required regarding the regulation of nested networks and would be happy to contribute to any working group.

We support the view that the financial stability of IDNOs should be protected and that the present alternative arrangements should be continued. We agree that the licence modifications proposed as part of DPCR4 should be applied to IDNOs and that the trigger event for cash lock up should be the failure of the parent company to meet a call under the keepwell agreement.

We support the need for boundary meeting other than for diminimis levels assuming that this is set at an appropriate level.

Although reducing IDNO liability for upstream DUoS may appear attractive, it requires careful consideration. If this proposal was to be progressed, it would require a considerable number of changes to existing systems and procedures. Incumbent DNOs would need to make significant changes to their systems including MPAS. Major changes to the Elexon settlement systems would also be required. Suppliers

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would need to address the terms and conditions of their DUoSAs agreements, together with their billing, validation and settlement systems. All of these changes have the potential to incur significant costs that would ultimately be borne by the customer.

In our earlier response dated 13<sup>th</sup> September 2004, we welcomed the introduction of suitably managed and regulated IDNOs with the proviso that we would not expect them to introduce inefficiencies or result in additional cost or lower levels of service for customers. It is important that a detailed appraisal of costs and benefits is carried out before such a change is introduced. If such an appraisal were carried out, we would be prepared to carry out an internal impact assessment and provide indicative costs on a confidential basis.

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

Yours Sincerely

Terry Ballard  
Economic Regulation