

David Gray  
 Managing Director, Networks  
 Ofgem  
 9 Millbank  
 London SW1P 3GE

Your ref  
 Our ref LOG 086  
 Name Stephen Rose  
 Phone 01793 892068  
 Fax 01793 892981  
 E-Mail [stephen.rose@rwenpower.com](mailto:stephen.rose@rwenpower.com)

23<sup>rd</sup> January 2006

### **Open letter on Income Adjusting Events thresholds for gas distribution networks**

Dear David,

RWE npower welcomes the opportunity to comment on the above open letter.

Of the three options under consideration our preference is for option 1, the status quo option of retaining the IAE threshold for each DN at £2m.

We are not convinced that the potential price risk during the extra two year transitional period is significantly great to warrant reducing the IAE threshold to £1m (as suggested in option 2) or introducing proportional thresholds (as suggested in option 3), and do not believe Ofgem's decision to postpone implementation of the enduring offtake regime has materially adversely altered the risks facing DNs compared to those that were reasonably foreseeable at the time DN sales were agreed.

Ofgem has already taken steps to mitigate the absolute risks DNs are exposed to under the transitional incentive scheme by setting an absolute cap of £5m on any spend above the incentive target, and in doing so has already taken account of the risks of unanticipated demand growth. To further mitigate DNs potential exposure to reflect the fact that the reference price applied to the incentive scheme is the prevailing out-turn capacity price is not in our view justified, and it is by no means clear at this stage when or if any potential re-balancing of exit charges will take place.

Also as there are already significant differences in the level of incentive targets applicable to each DN, which in turn creates significant differences in the potential for DNs to be exposed financially to capacity bookings which exceed target levels, any re-balancing that does take place in future may well improve the risk position of those DNs who currently have the biggest incentive target.

It is not clear from the open letter whether any reduction in the IAE threshold limit would apply only to this event, or whether it would then apply to any future unforeseen event.

We assume it would be the former, but in any event would prefer not to see a precedent set which could then be applied to other gas and electricity monopoly networks at a later date.

Yours sincerely,

Steve Rose

**RWE npower**  
 Trigonos  
 Windmill Hill Business  
 Park  
 Whitehill Way  
 Swindon  
 Wiltshire SN5 6PB  
 T +44(0)1793/87 77 77  
 F +44(0)1793/89 25 25  
 I [www.rwenpower.com](http://www.rwenpower.com)

Registered office:  
 RWE Npower plc  
 Windmill Hill Business  
 Park  
 Whitehill Way  
 Swindon  
 Wiltshire SN5 6PB

Registered in England  
 and Wales no. 3892782

## Economic Regulation