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31st July, 2007

Zonal transmission losses – the Authority's 'minded-to' decision July 2007

Dear Bob,

We welcome the opportunity to comment on the issues raised in this Impact Assessment and consultation. This response reflects the views of RWE npower and the UK based business of RWE Trading GmbH.

Users of the transmission system have different impacts on the level of total losses depending upon their location on the system. Therefore, it is clear to us that any mechanism that recovers users' contribution to the cost of losses must reflect this locational element. Where such costs are recovered on a uniform basis, as under the present scheme, locational signals are blunted. Sharpening the signals through a zonal losses scheme would provide stronger economic incentives to site new generation closer to existing demand (and vice versa), since it would better target the costs onto those parties who cause electricity to be transported the furthest distance.

As the proposer of P203¹ (and P198²), we fully support the Gas and Electricity Markets Authority's (the Authority's) minded to decisions in their document dated 26th June 2007³. As set out in this document, the Authority has considered this decision with reference to an established legal and assessment framework. This comprehensive consideration has been undertaken on a staged basis, with Ofgem undertaking additional analysis and considering further issues raised by respondents to the Impact Assessment⁴.

P203 has been shown to deliver significant benefits in terms of the incentives to reduce total losses on the transmission system, the reduction in overall transmission costs and positive environmental impact. Against Ofgem's assessment criteria it represents a demonstrable improvement compared to the current BSC baseline and its overall benefits are superior to those

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¹ Introduction of a Seasonal Zonal Transmission Losses Scheme

² Introduction of a Zonal Transmission Losses Scheme

³ Zonal transmission losses – the Authority's 'minded to' decision 153/07

⁴ Zonal transmission losses– assessment of proposals to modify the Balancing and Settlement Code, February 2007

of the other proposals. We believe that Ofgem has correctly identified the key weaknesses of P198 Alternative, P200, P200 Alternative and P204, both in respect of the proposals themselves and in comparison to the overall benefits under P203.

In light of this comprehensive assessment process undertaken against a wide range of statutory, economic and environmental criteria, we cannot easily see what further analysis or information could be brought forward that would help clarify rather than muddy the decision. On this basis, we can see no further need to delay the benefits that a zonal transmission losses scheme would deliver and urge the Authority to meet its declared timetable such that P203 can be implemented from October 2008.

We hope these views are helpful and if you wish to discuss them further please contact me on 01793 893983.

Yours sincerely,

Charles Ruffell
Economic Regulation

Questions Raised in the Consultation

CHAPTER: Two

Question 1: Do respondents consider that we have appropriately summarised the key themes of the responses to Ofgem's impact assessment on zonal losses?

A: We agree that Ofgem has appropriately summarised the IA responses.

Question 2: Are there any other themes which respondents considered should have been highlighted?

A: There are no other themes.

CHAPTER: Three

Question 1: Do respondents consider that the additional analysis we have provided addresses the concerns expressed by respondents to the impact assessment regarding analytical gaps in the impact assessment?

A: We endorse Ofgem's additional analysis and believe that it has addressed the gaps identified in responses to the IA.

Question 2: Do respondents consider that there are any remaining aspects on the modification proposals that require to be addressed analytically?

A: It is difficult to see that there is any further analysis that could be undertaken that has not already been considered.

Question 3: Do respondents have any additional analysis in relation to the impact of the modification proposals that they wish to bring to the attention of the Authority?

A: We have no additional analysis to put forward.

CHAPTER: Four

Question 1: Do respondents consider that the modification proposals have been appropriately assessed against the applicable BSC objectives?

A: Yes, a comprehensive assessment has been undertaken against the applicable BSC objectives, both individually and collectively.

Question 2: Do respondents consider that there are any aspects of the modification proposals that have not been adequately assessed in relation to the applicable BSC objectives?

A: No.

CHAPTER: Five

Question 1: Do respondents consider that the Authority has appropriately assessed the modification proposals against the applicable BSC objectives when considered collectively?

A: Yes, a comprehensive assessment has been undertaken against the applicable BSC objectives, both individually and collectively.

Question 2: Do respondents consider that there are any aspects on the modification proposals that have not been adequately assessed in relation to the applicable BSC objectives when considered collectively?

A: No

CHAPTER: Six

Question 1: Do respondents consider that the Authority has appropriately assessed the modification proposals against its duties?

A: Yes, a comprehensive assessment has been undertaken against the Authority's duties, both individually and collectively.

Question 2: Do respondents consider that there are any aspects on the modification proposals that have not been adequately assessed in relation to the Authority's duties?

A: No.

CHAPTER: Seven

Question 1: Do respondents have any comments on any of the issues set out in this chapter?

A: We believe that the Authority has properly considered all the factors in assessing the modifications.

CHAPTER: Eight

Question 1: Do respondents wish to raise any specific issues regarding the Authority's minded to position?

A: As set out in our response, we fully support the Authority's minded to position.

Question 2: Do respondents have any views on both the process and timetable that are proposed for the Authority making its final decisions on the modification proposals and for publishing those decisions?

A: We would encourage the Authority to take a final decision that will enable an October 2008 implementation date as set out in their timetable.