RWE npower

Collette Schrier
Commercial Regulation, Electricity Distribution
Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

Your ref 36/08
Our ref
Name Andy Manning
Phone 07795 353 544
Fax 01905 340 487
E-Mail andrew.manning@npower.com

14th May, 2008

Delivering the electricity distribution structure of charges project

Dear Collette,

Introduction

RWE npower welcomes Ofgem's decision to consult on this area and generally supports the proposed approach that should bring certainty in the development of the distribution structure of charges project. Network charges comprise on average around one quarter of the cost of supplying electricity to customers. Thus not only is the level of the charge levied by distribution businesses of importance but also the manner in which the distributor's costs are reflected thorough the charging structures to different classes of customer. This will also impact the systems and processes that the supplier must deploy.

Although the bases of the charging methodologies for all customers at voltages other than EHV have yet to be settled, the principles articulated in the consultation paper suggest that these will increasingly be based on the modelling of the extant system. We recognise that the development of charging structures is likely to be evolutionary as modelling techniques and capabilities become more sophisticated. Whilst the proposed licence condition will bring certainty in the shorter term it would be helpful if distributors were further required to indicate their plans for any future modifications they may see as appropriate. This would better enable a supplier to plan the evolution of its systems so as to reflect fully the resultant charges to its customers.

Question 1

We consider that it is highly desirable that the electricity industry has certainty over when changes will be implemented and the nature of those changes. A piecemeal approach with DNOs working to individual timetables may lead to confusion and uncertainty. We would therefore support the use of a coordinated approach. Given the history of the lack of progress to date, we would also support a modification to the distributor's Licence as the most appropriate way forward.

Furthermore, we recognise the interaction that this project has with DPCR5 and in particular with its impact on the efficient use of networks and the consequence for future capital expenditure. Implementing new methodologies that could have a radical impact on the balance of charges between different customer groups and the manner in which charges apply to distributed

RWE npower
Trigonos
Windmill Hill
Business Park
Whitehill Way
Swindon
Wiltshire SN5 6PB
T
+44(0)1793/89 39 83
F
+44(0)1793/89 29 81
I
www.rwenpower.com
Registered office:
RWE Npower plc

generation may create short lived disturbances that are then further exacerbated by the implementation of the new price control.

We suggest a better way forward would be for the Licence Condition to require the new methodology to be approved by 1st October 2009 but implemented from 1st April 2010 in conjunction with the outcome of DCPR5. This approach would have the added merit that Suppliers would have time in which to amend their systems to deal with any structural aspects that were consequent on the new methodologies.

Question 2

We note with interest that the proposed principles explicitly demand the use of power flow modelling (where practicable). This engineering-based approach is a radical departure from the charging methods previously employed but is clearly a pre-requisite if the other charging principles and objectives are to be met.

Whilst we welcome the approach as a necessary step towards achieving more cost-reflective charges we also believe that it could lead to increased volatility in distribution charges for particular groups of customer on a year on year basis. This emphasises the importance of the principles of transparency and predictability. In addition to any charging models and their accompanying data being provided in a manner that enables a customer to assess their approximate contribution to use of system charges, there should also be a requirement for distributors to give suppliers access to the charging model that will enable them to predict the costs their customers are likely to incur under different market scenarios.

Question 3

It is unclear to what extent the structure of tariffs, as opposed to the structure of charges, is covered by this process. It would seem inevitable that the better definition of costs that will emerge from the new framework envisaged is likely to require changes to the tariff structures.

Radical changes to the structure of distribution use of system tariffs could cause suppliers considerable expense in modifying systems. It might also take a significant time to reflect any new tariff structure through to customers and thus elicit the demand side response that would be expected. However, any movement that increased the commonality between different distributor use of system tariff structures would greatly improve the understanding of the end-user.

Question 4

Subject to our comment in response to question 1 regarding the implementation of any new charges from a common policy being delayed until the start of the new price control, we would support the development of a common use of system charging methodology by DNOs. This will bring consistency to DNO charging methodologies and reduce the uncertainty of the manner in which charges changed over time.

However, it is unclear to us why the perceived advantages of Ofgem's preferred approach (Option 2) concerning the creation of a common methodology should not be enduring. It is recognised that this will require the establishment of some form of governance that would outlive the date in the proposed CLM but this should be possible through effective discussion under the

auspices of the DCMF. There may be a need for a subsequent licence obligation that would help maintain innovation as well as retaining a common methodology approach.

The rate of progress since 2000 makes the Option 2 timetable seem somewhat challenging. Furthermore we are concerned that the new Charging Methodology will not be approved (not vetoed) by Ofgem until July 2009 for implementation from 1st October 2009. On the assumption that there is a reasonable degree of tariff disturbance, this will leave suppliers in the position of 'second-guessing' Ofgem's approval decision in respect of supply contracts that cover the period post October 2009.

Illustrative tariffs could be available from an earlier date but these can be as confusing as they are helpful. If there is likely to be significant disturbance then it is essential to have a longer period between Ofgem's decision and implementation to allow Suppliers to reflect new charges in supply contracts. As noted above our suggestion is that the timetable for approval of a common methodology remains as proposed, but implementation should be delayed until 1st April 2010.

Question 5

As a matter of principle it would seem appropriate that the relevant licence requirements should apply to all electricity distributors. We recognise that the style and content of an IDNO's charging methodology may be very different to that for an established DNO. For example it may not be appropriate for the methodology to incorporate load-flow modelling. Notwithstanding this it should be possible to frame the licence modification so as to ensure that all electricity distributors produce a charging methodology at an appropriate level of sophistication.

We hope these views are helpful and would be happy to discuss them further

Yours sincerely,

Andy Manning
Industry, Networks and Agreements