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Delivering the electricity distribution structure of charges project

Dear Rachel,

Thank you for the opportunity to respond to the above consultation. The following comments are provided on behalf of the RWE group of companies including RWE Trading GmbH and RWE Npower plc.

Overall, RWE npower welcomes the decision to implement a common methodology solution from April 2010. We believe this brings a manageable structure to the process which will aid industry understanding and engagement.

Whether respondents agree that Ofgem should specify the common methodology to be applied across DNOs

Given the timescales involved, we agree that Ofgem should specify the common methodology. As we have previously stated, and Ofgem has recognised, having a reasonably reliable view of future tariffs under a common methodology a good time before implementation is essential for all Users. An early decision on the underlying model followed by open progress will facilitate this. We believe that, whilst perhaps not ideal, this is now only possible through the approach Ofgem outline.

We also recognise the assertion about reducing DNOs regulatory risk over potential veto of other solutions and would add that this clearly also reduces Users' risks regarding final tariffs.

The pros, cons and impacts of each model

As recognised within the consultation, there is no clear 'right' methodology to be selected. At EHV level, we are concerned at how LRIC will work at low and negative growth levels. If it can be demonstrated that LRIC can handle this, LRIC would appear to fulfil the principles outlined in previous consultations. However for the FCP approach it is not certain that the principles are met for EHV Users due to effectively separate methods of Demand and Generation.

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Regarding HV/LV demand models, the use of historic RRP Cost Data carries considerable appeal by allowing Users the opportunity to estimate future charges. This is, of course, predicated on Ofgem providing public access to the required low-level RRP data and DNOs making models available.

We believe that where costs can be attributed with some confidence within a model then we should do so. Following this, any 'scaling' should maintain locational differentials. Hence, we see merit in the G3 approach of cost allocation plus fixed adder.

Governance arrangements

We have talked about the need for stability and predictability of Tariffs throughout this process. Any governance process must support this. We are concerned that allowing all Users the right to raise modifications to the common methodology has the potential to lead to instability and accompanying risks. That said, we do wish to be able to engage fully in the process of the evolution of the common methodology. We believe this will be best realised through an effective DCMF. It is hoped that Users bringing suggestions to the DCMF for discussion and development will prove more efficient than a formal modification process. This probably means that a DCUSA change is required to give the DCMF a formal footing.

Proposed processes

The timescales outlined in Annex 4, although challenging, are unavoidable to deliver the project successfully.

Other matters

In simplistic terms, the scope of the common charging methodology should cover all aspects that affect a Users' distribution costs. This means the inclusion of the structure of tariffs and the application of tariff items. This would both allow the treatment of such matters to be made common and also bring them within the Ofgem approval process.

If you wish to discuss any of these matters further please feel free to contact me.

Many Thanks

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