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### Code Governance Review: Charging methodology governance options

Dear Mark,

Thank you for the opportunity to participate in the discussion on Code Governance Review: Charging methodology governance options. This response is on behalf of the following RWE companies; RWE npower plc, RWE Supply and Trading GmbH and RWE Innogy.

We note that the arrangements for determining and modifying the methodologies under which network operators determine certain of their charges are provided for in those operators' licences,

- Electricity Transmission Charges (Use of system and Connection charges)
- Electricity Distribution Charges (Use of system and Connection charges)
- Gas Transportation Charges (Fixed prices and auction reserve prices)

There is a standard model that applies to the governance arrangements for modifying these charges. The licensee is obliged to keep the relevant charging methodology under review so as to ensure that it meets the "relevant objectives" and to make the necessary modifications to the methodology, if it falls short of those objectives.

There are differences in the applications of the model, in that;

For electricity transmission charges and gas transportation charges, before making any such modifications, the relevant licensee is required to consult those who will be subject to the relevant charges. It is required to submit a report to Ofgem which details;

- The terms of the original modification
- Details of any third party responses to the proposal
- Any changes made to the proposal in light of those responses
- An explanation of how the final proposal furthers the relevant objectives, and
- The proposed timetable for its implementation.

Ofgem then has 28 days from receipt of the report to veto the modification, or 3 months if it wishes to carry out an impact assessment. In the case of electricity distribution charging methodologies, there is no requirement to consult customers or to make available the modification proposal; otherwise the process is the same.

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It seems to us that there are similarities in the existing process to that that exists within the industry code modification process, particularly in the case of electricity transmission and gas transportation.

There are a number of reasons why it may not be in the best interests of customers to initiate major change to the existing arrangements;

- Where the charging methodology no longer fulfils its “relevant objectives”, the licensee has a licence obligation to bring forward a proposal to address that shortcoming. This is not an insignificant incentive as not to do so would be a breach of its licence, which could lead Ofgem to make use of its licence enforcement powers. Ofgem also has powers under the Enterprise Act 2002 to make references to the Competition Commission. These could be regarded as fairly heavy handed but they do provide the right incentives.
- Changes to charging methodologies could affect not only the level of transmission revenues but also the risk profile associated with them. There are of course mechanisms to deal with this but these could add complexity and new regulatory risks.
- Ofgem already has strong powers to influence charging proposals. It has the final say on any proposals, where a charging methodology no longer fulfils its “relevant objectives” the licensee has an obligation to bring forward changes, if this is not done then Ofgem can use its licence enforcement powers.
- Such a change could have a significant impact on the level of work required to administer the process, as empowering customers could greatly increase the numbers of proposals brought forward.

### **Conclusion**

It would seem sensible to adopt the same model across electricity transmission, electricity distribution and gas transportation charging and to make electricity distribution subject to the same arrangements in that modification proposals should be made available and customers consulted.

We also note that that electricity transmission and gas transportation hold forum’s to discuss charging issues – this would seem to be good industry practice that should be extended to electricity distribution.

In conclusion we believe that any of the options other than the status quo option would be disproportionate to the benefits gained. We do however note that there are some best practice gains that would enhance the present system.

We are happy to discuss this response with you and would participate in further discussions on this subject.

Yours sincerely

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