

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

Your ref 160/08  
Our ref  
Name Andy Manning  
Phone 07795 353 544  
Fax 01905 340 435  
E-Mail [andrew.manning@npower.com](mailto:andrew.manning@npower.com)

22nd January, 2009

## Next steps in delivering the electricity distribution structure of charges project

Dear Lewis,

### **Introduction**

RWE npower welcomes Ofgem's decision to consult on this area and appreciates Ofgem's attempt to involve other stakeholders in the process. We remain of the opinion that is highly desirable that the electricity industry has certainty over the nature and timing of future changes to distribution charges. We have previously indicated our support for achieving certainty through a Collective Licence Modification (CLM) and remain minded that such certainty is still required.

### **Chapter 2**

We believe that Ofgem is right to continue to pursue the completion of this project. It is clearly beneficial to all to have efficient spending in network investment and a key element in securing this must be cost-reflective network charges. Additionally, we believe a common charging methodology will reduce the risks attached to forecasting future charges for using distribution networks; by reducing both the regulatory risk attached to Ofgem decisions on modifications and the modelling risk attached to handling multiple charging models.

### **Chapter 3**

We realise that, whilst not ideal considering the industry resources it may require, if there is now no possibility of a suitable and successful CLM, the Authority may decide it is necessary to refer the full package of measures to the Competition Commission (CC). It is certainly necessary for clarity to be brought to this area for the reasons outlined in Chapter 2.

Clearly, this may mean a further delay to the process. We agree with Ofgem that this does not mean progress on areas where there is consensus should slow. It is important that any referral does not cause additional confusion over when changes to charging methodologies will occur. In particular the industry needs to know, with maximum notice, any changes envisaged for April 2010 and which areas will await any CC ruling. We note that the DNOs, with industry support, have been working collectively towards many component areas of a common methodology. We would wish to see this continue to a clear timetable.

RWE npower  
Trigonos  
Whitehill Way  
Whitehill  
SN5  
6PB  
T  
+44(0)1793/8  
9 39 83  
F  
+44(0)1793/8  
9 29 81  
I  
[www.rwenpower.com](http://www.rwenpower.com)  
Registered  
office:  
RWE npower plc

We do not believe it is possible to separate out the various substantive issues covered by the CLM as they interact in a number of ways. Firstly, as a DNO's revenue is fixed through the Price Control process, although separately for Demand and Generation, the charging arrangements for any particular type of user has a direct influence on all other users. Whilst it is accepted that treatment of different users does not need to be identical it is required to be compatible. In particular we agree that if the CC ruled only on the EHV aspect in a manner inconsistent with arrangements for lower voltages this would create potential disturbance. Hence, although it is conceivable that only referring the EHV aspects (Option 2B) will have the same outcome as a full referral (Option 1) we do not believe it will achieve the required certainty. Neither options 2A or 2C appear to consistent with the desire to achieve efficient network investment as they fail to insist on charging arrangements at EHV which Ofgem regard as cost-reflective. Hence, Option 1 appears to be the best of the options outlined should the Authority decide to refer the matter to the CC.

Option 1 would also allow a single set of governance arrangements. We welcome the suggestion that users should be able to influence the development of charging methodologies. This would be facilitated by a formal consultation process for modifications. We remain unsure that allowing users to directly raise modifications is desirable for the industry as we have concerns over the potential volume and quality of modifications raised. However, if sufficient safeguards against spurious or partisan modifications could be implemented it may be possible.

Finally, we would take this opportunity to restate the importance of receiving the earliest possible indication of any future changes to distribution charges to enable any cost-reflective messages to be passed through appropriately to end-users.

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

Yours sincerely,

Andy Manning  
Industry, Networks and Agreements