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29th March 2011

Dear Lesley

Consultation on the way forward in dealing with the interactions between the electricity distribution losses incentive scheme and Gross Volume Correction (GVC) activity

RWEnpower welcomes the opportunity to comment on these proposals. This response is provided on behalf of the RWE group of companies, including RWE Npower plc, RWE Supply and Trading GmbH and RWE Npower Renewables Limited, a fully owned subsidiary of RWE Innogy GmbH.

As you are aware, npower were disappointed at the process surrounding Ofgem's decision on 17th December 2010 allowing CE to restate losses for 2009/10. We believed that this decision should have been subject to a formal consultation process, allowing suppliers and consumers to input into and understand the solution. Furthermore, the revenue increase at such short notice made forecasting of 2011/12 DUoS tariffs difficult. The financial impacts on suppliers and consumers caused by such decisions increase the likelihood of risk margins having to be applied to future prices in order to protect suppliers from such late changes. This approach would obviously be detrimental to the retail market. We also raised many concerns regarding the calculation methodology that was outlined in the decision notice.

We welcome Ofgem's consultation in dealing with future DNO requests to restate losses. We believe that this goes some way towards addressing our concerns but there are a number of areas which could be clarified or changed in order to address our concerns fully.

We fully support Ofgem's proposal 'not to make any decisions on losses reporting that would require a DNO to update its tariff in October 2011'. This gives total clarity to the market for October 2011 that DUoS tariff changes will not happen as a result of losses adjustments due to GVC.

The consultation proposes two approaches for dealing with future requests from DNO's to restate losses reporting:

- (a) Applications raised prior to 15th April 2011 that are supported by 'the necessary data' would be implemented into DUoS tariff changes effective from 1st April 2012.
- (b) Applications raised after 15th April 2012 will be implemented as part of the rolling retention mechanism process, which would be reflected in tariffs effective from 1st April 2013.

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We have a number of concerns with this approach:

1 Methodology

The consultation requires the DNO's to send their application with the 'necessary data' by 15th April 2011. We would request clarity on the definition of 'necessary data'? . It is fair to say that the methodological approach set out in 17th December 2010 decision document is vague, and does not fully give industry participants an understanding of how future requests will be handled. Furthermore, it is not clear if the methodology will apply equally across the 3 different losses methodologies applied by the DNOs. Given that the consultation on the methodology does not close until 2nd May 2011, we do not believe there is a clear view at the moment how restatement of units will be calculated. This will result in inconsistency of approach across remaining DNOs wishing to submit data by 15th April 2011.

We will provide a more detailed commentary on our issues around the 'methodology' outlined in the 17th December document. However, at this stage, we would again like to raise strong concerns that it allowed adjustments for negative EACs and over-reading metering errors. We have strongly argued that this was not appropriate since they have only looked at one side of the issue. For example, if negative EACs are being taken into account since they provide a dis-benefit to the DNO's, consideration should also be given to large positive EACs which benefit DNO losses. Similarly, we have shown that while CE took the benefit of the Thurcroft reading error in YEDL, they did not take account of the late GSP Group metering changes in the NEDL area – which were of similar magnitude but in the opposite direction to Thurcroft. We have also raised a number of concerns with Ofgem that the methods of ensuring double counting does not happen are inappropriate. The method of calculating losses was not defined in any detail.

In order to resolve this methodology issue, we would request that Ofgem set up a working group consisting of DNOs, suppliers and consumers, to agree an optimum solution. npower would be very keen to support this working group.

We strongly believe that the methodology issues need to be resolved prior to further reinstatements being made. Given that this will introduce delays into the process, implementation on 1st April 2012 will not be possible if the timescale issues that we had in December are to be avoided moving forward.

We would also request that, once agreed, any methodology changes are reconciled against those applied for CE in order to maintain a consistent approach for all DNOs.

2 Transparency and Timescales

Consumers and suppliers require adequate notice of the change in revenue and timescales of implementation in order to plan for the outcome. As stated above, if this does not happen, forecasting of DUoS tariff changes becomes very difficult. The impact of this is that suppliers will be forced to consider applying risk margin to DUoS tariffs. This would be detrimental to consumers and the retail market.

As previously outlined, we do not believe that April 2012 is a feasible implementation date for restatement of units, given concerns around the lack of clarity on the methodology.

Under the LRRM scenario, the consultation proposes that the LRRM adjustments will be published before 30th November 2012. We are concerned that this notice period, if applied, leaves us in a similar position to the 17th December 2010 situation.

To allow adequate notice of change in revenue in a timely manner for pricing the retail market

- npower request that a process is implemented so that DNOs or Ofgem inform the market as soon as applications are raised with Ofgem for unit restatement. Details that an application has been

made to Ofgem should also be shown on the DNOs DCP066 statements and updated with likely revenue impacts as more information becomes available.

- For a 1st April tariff change date, the details and impacts on allowed revenue should be published by, at the latest, 1 August in the previous year. This therefore allows suppliers to price customers more accurately in the October pricing round since they can forecast more accurately prices from April-September (i.e. less risk on one year contracts).

In summary,

We would urge Ofgem

- To delay implementation of losses reinstatement for all DNOs **until 1 April 2013**.
- Set up an Industry working group to fully define the calculation methodology
- Ensure a consistent approach across remaining DNOs wishing to request this process.
- Provide transparency and clarity to suppliers and customers on the changes by:
 - Informing the market of applications made by DNOs to Ofgem for losses reinstatement
 - Providing progress updates as part of the DCP066 process
 - Implementing a latest date for publication of the resulting revenue changes of 1 August 2012 for 1 April 2013 tariff change
- Reconcile and implement any methodology changes for CE.

Please feel free to contact me if you wish to discuss this response in more detail.

Many thanks,

By email so unsigned

Helen Inwood
Network Charging Manager