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**TPCR4 rollover policy update and initial analysis of business plans
April 2011**

Dear Gareth

Thank you for the opportunity to respond to this consultation. This response is provided on behalf of the RWE group of companies, including RWE Npower plc and RWE Supply and Trading GmbH.

In terms of their overall approach, Ofgem has identified a number of guiding principles for conducting the TPCR4 rollover and these are described Appendix C of the consultation document. We fully support Ofgem's position that there should be no new policies introduced for the roll-over year. Further, we agree that the scope of the proposals in this consultation is broadly consistent with the guiding principles. In our view, the objectives *to be proportionate to a one-year control and to minimise regulatory burden; to reflect recent developments in policy; and not to delay critical investment* are the most important.

The finance and cost assessment proposals, including keeping the allowed cost of equity unchanged, revising the allowed cost of debt and deferring an ex-post efficiency assessment until the end of the price control are also consistent with these high-level objectives. Where practical, we agree that it makes sense for any work undertaken as part of the one-year extension to facilitate the transition to RIIO.

The Transmission Owners (TOs) have each submitted expenditure forecasts for 2012/13 that represent a significant increase over current allowances. The capex forecasts made by the electricity TOs are driven by assumptions about load-related investments to connect new, mainly renewable, generation. The number of these schemes that will actually be in a position to connect in 2012/13 is uncertain and the forecasts may be overstated. We also share concerns about the level of NGG's proposed expenditure on investments to increase network flexibility. Although we accept that the patterns of gas supply and demand are changing on the NTS, the need for this additional expenditure has not yet been demonstrated and we believe that more work is required to justify these investments. The forecasts for the gas and

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electricity SOs are also largely premised on the requirements for expenditure on, inter alia, systems to manage a more complex network operations.

Ofgem's guiding principles for the TPCR4 rollover should result in regulatory certainty and we would expect price changes to be in line with other years within existing price control period, with no significant or unexpected step changes. Given the proposed levels of revenue increases, we are concerned that this will result in much higher tariffs in the rollover year. Given the level of uncertainty underpinning these forecasts and the potentially volatile charges that may result, we welcome the level of scrutiny already by Ofgem and its technical consultants. This has already resulted in both the level of and requirement for elements of forecast expenditure in a number of areas being challenged.

We note that these are initial proposals and will be refined during the rest of 2011 and look forward to receiving the updated proposals.

We hope these views are helpful and if you wish to discuss any aspect of them in further detail, please do not hesitate to contact me.

Yours sincerely,

By email so unsigned

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