



Ofgem  
9 Milbank  
London  
SW1P 3GE

Name Alan McAdam  
Phone 01793 89 3662  
E-Mail alan.mcadam@rwenpower.com

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### **Project TransmiT: approach to electricity transmission charging work**

RWE welcomes the opportunity to respond to this consultation. We are responding on behalf of RWE companies operating in the UK:

Ofgem has narrowed the range of options for potential TNUoS changes to;

- Socialised charging
- Improved 'Incremental Cost Related Pricing' or 'ICRP'

As you are aware we commissioned NERA/Imperial College London to model the above scenarios out to 2030 assessing the impact on customer bills, the findings were;

- NERA/Imperial College London found that moving to postage stamp charging would substantially increase generation and transmission costs in GB, resulting in a net cost to consumers of £20bn in NPV terms relative to a system with locational charges, and
- The current system of locational generation charges is economically efficient relative to a uniform charge, and sustainable in terms of meeting the UK government's green targets

Our experience is that this is not a piece of work that can be rushed and time will be needed to develop the scenarios and the assumptions that are fed into the model, so that they are robust and can stand up to scrutiny.

We know that Ofgem will want to take into consideration potential changes to the market that will come out of Governments white paper and subsequent development of options coming from this. This process is likely to continue for most of next year.

We therefore are concerned with the wording in the paragraph at the top of page 5, *"we think that the work we will do over the coming months could identify options for change that could be implemented in 2012. Whilst our aim is for any change identified to be in place from April 2012, we recognise that this timetable is challenging and that there is a possibility that any appropriate change may be implemented at a later date."*

RWE npower

Trigonos  
Windmill Hill Business Park  
Whitehill Way  
Swindon  
Wiltshire SN5 6PB

T +44(0)1793/89 30 83  
F +44(0)1793/89 29 81  
I www.rwenpower.com

Registered office:  
RWE Npower plc  
Windmill Hill Business Park  
Whitehill Way  
Swindon  
Wiltshire SN5 6PB

Registered in England  
and Wales no. 3892782

We would have concerns if changes were rushed through for 1 April 2012 since this could result in a sudden major step change in transmission prices (up or down). The detail and extent of the changes would not be understood until the final conclusions were released in January 2012. This would have major implications for suppliers and consumers:

- Customers who have pass through TNUoS charge arrangements with their supplier will be faced with unpredictable price changes with minimum notice period. This makes business planning and budgeting almost impossible, and may lead to unexpected losses or cash flow issues if price rises are considerable.
- Suppliers are pricing customers now for contracts spanning 1<sup>st</sup> April 2012, and already have contracts with customers spanning that date. Faced with unpredictable TNUoS prices from April 2012, suppliers will be forced to add risk premium when pricing contracts where the TNUoS prices are consolidated into the customer's unit rate. This is clearly not in the best interest of consumers or suppliers.

Please contact me if you require further information.

Yours sincerely,

Alan McAdam  
Wholesale Economic Regulation Manager