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17<sup>th</sup> November 2009

## **DNPC05- Methodology for Determining the Balance of Revenue Recovery between LDZ System Charges and Customer Charges**

Dear Sirs,

RWE npower welcomes the opportunity to respond to the above consultation and does so on behalf of all its licensed gas businesses. Would you please ensure that our response is forwarded to the relevant persons at each of the Distribution Networks (DNs).

We have been a consistent supporter of the principle that network charges in gas and electricity should be based on cost reflectivity. Our belief is that the proposals put forward by the DN's in this consultation better achieve this objective, and we therefore support the move towards greater cost reflectivity.

### *Question 1*

*Should the charging methodology be changed so that the balance between LDZ system charges and customer charges for each DN is based on a network specific estimate of the split of relevant costs?*

It is our belief that the charging methodology should be changed so that the balance between LDZ System charges and Customer charges for each DN is based on a network specific estimate of the split of relevant costs. A revision of these parameters is in fact overdue given that the last update occurred several years ago and occurred only on a national basis across all LDZs. It would seem more efficient and cost reflective for DN's to apply balances specific to their own network cost base.

### *Question 2*

*Should the balance of costs relating to LDZ System and Customer charges be assessed using an average of an appropriate number of years for which data on a consistent basis is available for each network? An alternative would be to use the cost analysis for just the latest year available.*

We believe that only the latest year of available data (2008/09) should be utilised to gain the network specific LDZ System and Customer charge split. We base this on information received at the Gas DCMF on 26th October 2009 in which National Grid stated that they had made changes to asset life and depreciation assumptions for 2008/09 thus resulting in significant movements when comparing the 2007/08 data to the 2008/09 data. By utilising only the 2008/09 data we therefore believe that this is more cost reflective than averaging the two years worth of data given this change.

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*Question 3*

*Should the balance of charges relating to LDZ System and Customer Charges be reviewed at the beginning of each Price Control period, except in exceptional circumstances?*

We agree with the DNs that it would be beneficial to keep the split of charges that are decided upon following this consultation until the next Price Control in order to provide predictability. With regard to how the split is derived for the next Price Control subject to no further assumption changes by the DNs it is our belief that each year's data from 2008/09 onwards should be utilised in the creation of the split however a greater weighting should be given to the most recent years in order to appropriately reflect data trends. Where possible, we believe that the exceptional circumstances should be explicitly identified and it will be important that DNs ensure they notify suppliers well in advance of any changes that will apply, such that these can appropriately be reflected in the future network charge forecasts.

*Question 4*

*Is there any reason why the proposal should not be implemented from 1st April 2010?*

We see no reason why changes should not be implemented from 1st April 2010.

Yours faithfully,

Steve Rose\*  
Economic Regulation

\* sent by e-mail therefore unsigned