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DNPC04 – 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 our response is forwarded to the relevant persons at each of the Distribution Networks (DNs).

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

With regard to the three questions posed in the consultation we would make the following response.

Question 1 – Should the charging methodology be changed so that the balance between LDZ System Charges and Customer Charges for each DN is based upon a network-specific estimate of the split of relevant costs.

Whilst basing the balance between LDZ System Charges and Customer Charges on an average or median across all DN's might improve the cost reflectivity of charges across all DN's as a whole it would seem more efficient for DN's to apply balances specific to their own network cost base. In the event network specific charging methodologies were to result in certain DN's adopting charging structures or codes which differed from those used by their peers we would strongly resist such a move. However, this is not the case in this instance.

We suggest the most appropriate way forward would be for DN's to apply a balance based on the most recent financial year cost base analysis, rounded to the nearest 2.5% increment.

Question 2 – Should the DN's rebalance the LDZ System and Customer Charges each time the level of charges is changed or should DN's rebalance the LDZ System and Customer Charges only if the forecast revenue split deviates from the cost reflective target split by more than a set threshold value. If so DN's would welcome feedback as to whether the threshold should be set at +/- 1%, +/- 2% or at another level.

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We believe that DNs licence obligations as regards ensuring their charging methodologies are cost reflective are sufficient and do not see any merit in DNs being required to rebalance their LDZ System and Customer Charges each time they change their network charges, or on an annual basis. If DNs were to apply balances rounded to the nearest 2.5% increment going forward, this would reduce the likelihood of small changes being made whenever more recent annual cost base data showed a slight alteration in the split of costs. However, costs should be more reflective than they are now for each DN and any significant change in the balance of their cost base in future (i.e. one that moves the balance to the next nearest +/- 2.5% increment) would be appropriately reflected in their charging methodology.

Question 3 – Is there any reason why the proposal should not be implemented from 1st April 2009.

We see no reason why changes should not be implemented from April 2009.

Whatever balances and threshold are to apply going forward it will be important that DNs ensure they notify suppliers well in advance of any changes that will apply, such that they can appropriately reflect these changes in their forecasts of future network charges.

We hope that DNs will find our response helpful and if they have any queries regarding it they should not hesitate to contact me.

Yours faithfully,

Steve Rose*
Economic Regulation

* sent by e-mail and therefore unsigned