

29 June 2007

Dear 'G3',

Reference: RWE npower response to Structure of electricity distribution charges – Joint Consultation on the longer term charging framework

Thank you for the opportunity to respond to the above consultation. The following comments are provided on behalf of RWE Npower plc, Npower Direct Ltd, Npower Ltd, Npower Northern Ltd, Npower Northern Supply Ltd, Npower Yorkshire Ltd and Npower Yorkshire Supply Ltd.

We have the following points that we would like to raise for your information and consideration:

Chapter 3:

- Network Group Level – recent experience has shown that determining appropriate group levels can be tricky. From a suppliers' point of view I would ask that you keep in mind the fact that Suppliers can help in this area as they can better analyse the impacts of tariff changes and highlight and quantify these effects. It may only be at the relatively late stage in the process when output tariffs will be made available to suppliers that the true impact of any rebalancing may be known;
- Regulatory Reporting Pack (RRP) – how transparent is the process when making use of the RRP as Suppliers are unable to see the contents provided by DNOs when completing the template. Suppliers need to see this information to be in a better position to assess the models being developed and their associated outputs;
- Is one-year of actual data sufficient? – Before being in a position to answer this question it may first be necessary to fully understand how volatile one years' data may be, either within year or by year-on-year comparison. Is the intention to make use of an average years' data or to use the most recent year? Averages change less over time and may therefore prove more stable and so reliable for use within a Charging Methodology. In addition, year-on-year trends may provide a more suitable 'context'

Chapter 4:

- We understand the 10 year horizon approach and agree that this seems a reasonable time period to adopt, but in order to be certain we suggest that sensitivity analysis is conducted at this relatively early stage in order gain the assurance required that this is a robust assumption. This could, for example, take the form of running the model for 10, 15 and 20 years and quantifying the impact on the outputs obtained.

Chapter 5:

- The question regarding one years' data commands the same response as above. We suggest that in order to determine data stability and to better quantify potential impacts of inherent yearly trends that further sensitivity tests are conducted - work on an average years' data etc. may provide a better insight into data stability;

- From a supplier perspective we would prefer to see a model developed that returns values as close as possible to actual allowed revenues as there is less chance of unwanted distortions occurring within the final tariff outputs. Again, some form of sensitivity test may be useful here to better understand the impacts of a reconciliation process (large or small). New charging methodologies should seek to ensure that only small reconciliations are required in order to growth modelled output to allowed levels. We believe that there is a distinct possibility that large reconciliations will not provide 'cost-reflective' tariffs across all customer groups. Indeed it may be possible that in certain circumstances that large reconciliations may indeed swamp any cost-reflective message that may be desired;
- It would be helpful to understand why the G3 charging methodology, as it stands, produces values that are much less than allowed revenues;
- We support the principle of cost-reflective pricing but understand that, on occasion, this can lead to negative charges being developed which raises practical difficulties. In addition, setting negative charges to zero does not necessarily provide a positive incentive for generation.

Chapter 6:

- In determining O&M charges we need to clearly define and understand the differences between reinforcement and replacement and the 'conflicts' that may exist. For example, referring to the question raised in the last bullet in Chapter 6 – nominal life of sole use assets aligning with 10 year horizon or mirror asset lifespan of 40 years. What happens where an asset is replaced before the end of it's 40 year lifespan as part of a reinforcement programme? It may be of concern that a significant amount of capital expenditure will be difficult to define as either replacement or reinforcement;

I hope that the comments provided above prove helpful within the consultation process. Please do not hesitate to contact me should you require any further information or clarification on any of the issues/ points of clarification raised.

Yours faithfully,

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