



Paul Massara
CEO RWE npower
RWE UK Country Representative

Dermot Nolan
CEO
Ofgem
9 Millbank
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10 June 2014

Dear Dermot

Wholesale Costs

Thank you for your letter of 4 June.

We constantly monitor wholesale prices and have noted the fall in prices particularly at the front end of the curve. The primary reason for the fall in prices is the exceptionally mild winter which we have had, which as you will know has detrimentally impacted on the profitability of retail energy supply.

Of course wholesale prices now make up a smaller element of those factors which affect retail prices. We calculated that in 2013 it made up 42% of the average dual fuel bill (down from 50% in 2011).

You note the relative movement of wholesale and retail prices and will be aware of the debate in 2011 and the Ofgem and NERA studies, which had very different conclusions. The Ofgem Supply Market Indicators contain a reference hedge model, and should suppliers hedge according to this model, then near term wholesale price changes would have a very limited effect on prices for standard retail tariffs, as the price for the corresponding energy is almost completely locked in by hedging.

In relation to your latest Supply Market Indicators report, wholesale costs are estimated at £617 for supplying a typical dual fuel customer for the period May-14 to Apr-15. This compares to a high for the last twelve months of £638, thus representing a drop of £21 or 1.6% of your current estimate of the average customer bill. This illustrates the impact of hedging in smoothing volatility in costs.

More recently in relation to the CMA referral, Ofgem has used econometric analysis on the relative movements of wholesale and retail prices. Whilst we have read this carefully it would be premature of us to comment at this stage. Suffice to say that the conclusions from the modelling are heavily dependent on the implicit and explicit assumptions, of which we do not at present have sight.

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We do not doubt that the CMA Review will look carefully at this and we encourage them to do so.

Tariff pricing decisions are made based on a forward looking view of the costs and market conditions and we typically are looking some period ahead on any pricing decision to minimise disruption for our customers. More factors affect pricing decisions than a drop in wholesale prices at the front end of the curve, particularly when you take into account that wholesale prices now represent a smaller percentage than they used to of retail prices.

The Consolidated Segmental Statements do not appear to us to give any indication that retail prices are inflated relative to wholesale prices.

The potential Labour price freeze has of course also complicated all pricing decisions further. The political and media pressures at the moment make it more difficult to reduce prices and then increase them again say next Spring. Then we are acutely aware that if the Labour party were to implement their proposed price freeze we will be living with the consequences of our standard tariff price for a very long time and beyond the level of risk that we could manage in the wholesale market.

However I can assure you that we review prices regularly and assess our options on a monthly basis.

In terms of explaining the impact of wholesale prices on the bill, the attached insert (headed "We've listened and we're making changes") was sent to customers from December 2013 with their first "new look" bill as part of our bill simplification project. As you can see, it includes a section headed "How your bill is made up". Online customers were sent a link to a page with the same content and an explanatory video.

In addition the purpose of our Energy Explained report and event was to bring some light to what had previously been a very muddled debate on the make up of the energy bill.

May I particularly endorse your comment on the need to re-build consumer trust in the market. The most important consideration currently at npower, on which I and my team are focused above all others, is the need to improve the way in which we deal with our customers. We are committed to increasing our investment in time and resource on customer issues, and clearly any pricing decision will be taken inter alia in the light of its effect on consumer trust and the other ways in which we could improve that trust.

Yours sincerely

A handwritten signature in black ink that reads "P. Massara". The signature is fluid and cursive, with a large initial 'P'.

Paul Massara

We've listened and we're making changes

There's a lot going on in the energy industry and this year we have been reviewing everything we do and based on your feedback, we're making some changes.

When you asked us to make your bill easier to understand, we did just that!

We've created a bill that should help you see at a glance how much energy you're using, what you're paying for and if you're on the best tariff available. What's more, we've designed this with the help of our customers.

We hope you like it. With simple symbols and bold colours that make every bill easier to understand, it's one more way in which we want to help you manage your energy costs.

We've listened to your feedback on other areas where we can help make life a bit easier for you and we'll be making even more changes over the next few months which are outlined on the next page.

We will continue to act on feedback from you to make it as easy as possible for you to manage your energy.

Paul Massara
Chief Executive, RWE npower



Here's what to look out for:

Simplified Tariff Structure

We have moved away from complicated base-tariffs and reduced the number of tariffs available. We are committed to offering a maximum of four simple tariffs. This will help us to deliver your energy costs and make it easier to ensure you're getting the best tariff available.

Helping you to choose the right tariff

From the beginning of April 2014, we'll also make sure it's always easy to see which one of our tariffs is cheapest so that you can work out what's best for your needs. To help you with this, we are introducing a tariff comparison rate. This will help you to understand the cost of your tariff so that you can easily compare the prices of different tariffs, at a glance, on a like-for-like basis.

Standards of Conduct

We want to be more open and transparent. Ofgem, the energy industry regulator, has issued a new licence condition which asks suppliers to explain how we treat customers fairly. We are fully supportive of this and view this not simply as a regulatory obligation but how we should do our business, day in, day out. That's what we are working towards and it's one of the reasons why we've made our tariffs simpler.

We'll be producing an annual statement each year so you can see how we are ensuring these standards are applied throughout our business, at all levels, from the boardroom to our call centres. You can see the first one online at npower.com/transparentcustomerfairly.

Find out more:
Your new look bill
npower.com/newbill

Energy savings advice
npower.com/savingenergy

Or call us on: 0800 073 3000 (landlines)
0330 100 3000 (mobiles)

Monday - Friday 8am - 8pm
Saturday 8am - 5pm

Worried about your bill?

We understand that you may have trouble paying your bills now and then. If you're worried about keeping up payments and managing your account to stay out of debt, or if you are already in debt for the energy you have used, the best thing to do is get in touch with us.

We can talk you through any schemes you may be eligible for and our services and products that could make a difference to the way you manage your energy bill. The earlier you get in touch, the sooner we can help. Online, over the phone, whatever's easiest for you - we'd like to help.

You told us you
wanted a clear,
simple energy bill...

npower

Phone calls calling us on a 0800 number is normally free when you call from a landline but charges may vary if you use a mobile. Calling us on a 0330 number will cost you no more than 10 or 20 pence from landlines or mobiles. If you get inclusive minutes with your package, call on 0330 number, as long as these minutes are not exhausted. For more information on our services, visit npower.com. Registered in England. Registered Office: 40 Central Business Park, Mitchell Way, Stevenage, Herts SG1 1DS. SP10111036193695723

Understanding your new bill

What do I pay?

This shows your monthly payment amount and the date it will be taken out of your account each month. We will also show the dates your bill relates to.



Your meter readings

This shows your most recent meter reading and the date it was taken. Your bill is based upon our estimate or your meter reading.

When you send meter readings in regularly, it helps us make sure you're paying the right amount for the energy you're using.



How does this compare to last year?

These graphics help you see how much gas and electricity you've used, and if it's more or less than the amount you used over the same period last year.

Your tariff

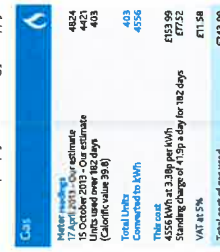
Take a look at all the key details relating to your tariff. We've included an estimate of your costs over the next 12 months.



Your energy use

This shows how much energy you've used and how much it costs. We've broken down your gas and electricity readings into sections.

A standing charge is a fixed fee you pay for every day you are connected to the gas and/or electricity network, set up to pay for maintaining your supply.



Your payments

This area shows the payments you've made since your last statement. The amount and payment date will be shown here.

You can also see how we've calculated your new Direct Debit payment.

Monthly payments	£600.00
22 June 2013	£100.00
22 July 2013	£100.00
22 August 2013	£100.00
22 September 2013	£100.00
22 October 2013	£100.00
22 November 2013	£100.00
Total	£600.00

How your statement adds up	£164.16
Amount left to pay from your previous statement	£33.96
You've paid	£600.00
Total cost of energy used	£770.20
Total left to pay	£164.16

What's watt?

Like all energy companies, we calculate how much energy you use over time, in kilowatt hours (kWh).

A kWh is used to measure energy consumption on your electricity bill and refers to a person using 1000 watts of power for 1 hour.

To make things easier, we've worked out the kWh measurements for some everyday examples to help you see how energy is used in your home.



For advice on how to save energy, please visit npower.com/savingenergy

How your bill is made up

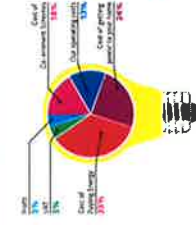
A recent npower survey showed that customers think suppliers' profits could be as much as 40%, and that their bills are rising due to our increasing costs.

We believe you'd like us to be upfront about what really makes up the cost of a typical energy bill, and to put it in a more straightforward way. So it may surprise you to hear that our bill is only about 5% - that's about the same as most supermarkets and far lower than many companies of our size.

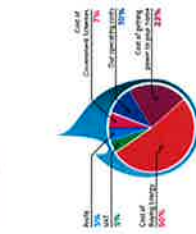
We've invested more than £5bn in the UK over the past six years, creating jobs, and investing in new technologies and services. We're also delivering government energy efficiency programs that will help reduce the cost of energy in the long run. These investments should help bring down the cost of energy in the long run.

Here's how a typical bill is made up:

Electricity bill costs



Gas bill costs



These breakdowns are based on an estimate of costs at 20p/kWh, overall average consumption (3,200 kWh for standard rate electricity) and 13,500 kWh for mains gas.

? The examples shown in this leaflet are for Direct Debit customers. More questions about your new look bill? Visit npower.com/newbill for detailed information