

Electricity distribution charging boundary between higher (EDCM) and lower (CDCM) voltages – Impact Assessment

Workshop notes – 28 June 2010

Notes and issues from the stakeholder workshop held at Citypoint, 1 Ropemaker Street, London EC2Y 9HT

1. Welcome and Presentation

Rachel Fletcher welcomed attendees and explained the context of the impact assessment and the options being consulted on.

Colette Schrier and Chris Chow gave a presentation which included the background, key features of the CDCM and the EDCM, DNO customer classification and numbers, boundary options presented for consultation and an illustrative on charging impacts.

The presentation is available on our website at <http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Pages/DistChrgs.aspx>.

A brief question and answer session followed the presentation.

2. Breakout Discussions

Delegates were divided into three groups to discuss three questions. After the breakout sessions a brief presentation was held highlighting the breakout groups' responses to the questions posed by Ofgem. The summary of responses for each table, augmented by the notes from each table's note taker, is set out below. The notes are set out by question.

1) How should the tradeoffs be assessed?

- a) Should the boundary apply in a common manner across similar customers?
- b) Should cost reflectivity take precedence over customer impacts?

Team 1

- The group generally agreed that commonality was desirable in principle.
- Two customers said that a change in charges might make more difference to certain customers depending upon their current financial stability and flexibility. They considered that this was more important than commonality. These customers considered that customer impacts should take precedence over cost reflectivity. One noted that the cost reflectivity might be considered in a wider sense to include the cost to society of businesses failing.
- An independent distribution network operator (IDNO) noted that licensed distribution network operators had a licence condition not to discriminate between customers and that this might hinder the introduction of a boundary that treated similar customers differently or measures to help out individual customers that were particularly adversely affected by the introduction of the EDCM.
- A DNO stated that it sympathised with customers but needed to ensure that it did not breach its licence requirements.
- The IDNO stated that licensees were only required not to discriminate unduly and that this might leave room to help individual customers.

- An IDNO stated that for customers already connected to the network it would be unfair to move to more cost reflective charging that varied depending upon the actions of other customers. Ofgem noted that the price of goods in competitive markets varies depending upon other customers demand and that cost reflective charging in this manner would encourage customers to adapt their behaviour.
- A DNO noted that the 'hybrid option' might be used to reduce customer impacts.

Team 2

- The group focused on the exceptions to the commonality principles. A few members of the breakout group were from existing (legacy) sites and voiced their concerns that their idiosyncrasies might not be catered for under a common boundary.
- It was noted that if there were exceptions they would need to be brought to the attention of Ofgem for consideration.
- The reasoning for the DNOs' preferred option was explained as a clean and common point, 22 kV, which all DNOs could move towards. It was also clarified that DNOs consider this option helps reduce any problems of perceived discrimination under SLC 19.
- A lot of the discussion focused on the potential detriment to a small segment of customers where higher prices could be experienced, e.g. under option Raised Boundary which is DNOs' preferred approach. It was noted that Ofgem should consider the business model and individual consumers. However it was suggested again that these parties would need to approach Ofgem with their cases in order for Ofgem to consider the materiality.
- It was clarified that though there would be impact to big customers of this option, that there could be options to mitigate the effects but that these options all carried with them certain tradeoffs which would also have to be considered in conjunction with the impacts to customers.
- A question was asked as to why customers should be penalised for being on a congested network which requires reinforcement and therefore pay the cost of this work.
- One DNO suggested that charges could be subject to volatility and thought the more cost reflective a model was the more likely there could be swings in charges.
- A customer representative asked the best way to seek recourse. It was noted that they could contact Ofgem and respond to the consultation in order to influence the debate at this point in time. Ofgem said they would welcome respondents to provide specific examples and proposals.
- It was also noted that there is a degree of uncertainty at present which is not welcome as no one really knows what the impacts to customers will be until they know exactly line-by-line which customers will be classified/affected. Only DNOs would have sight on exact customers.

Team 3

- All considered commonality positively especially suppliers since that would clarify tariff application.
- All agreed that commonality is important if it is cost reflective but commonality does not necessarily rely on the charging boundary. The CDCM has to be able to absorb new customers in a cost reflective manner. Some team members thought that large HV customers are paying over the odds because the charges appear higher for them. It was suggested that some of them are paying for cables they will not use.
- All considered the boundary decision should be based on assessing the impact to customers over cost reflectivity.
- Some team members preferred to focus on charging impacts. If no change means minimal impact, then they prefer no change.

2) What are attendees' most/least preferred options? Can your breakout group agree a common position?

Team 1

- There was an even split in views across three options - raised boundary (RB), a hybrid approach and optional raised boundary (ORB).

Team 2

- There was general agreement with the DNOs' preferred option from the consultation (RB) however there was a lot of discussion on providing and allowing for exceptions for existing and legacy sites, e.g. metering location, customer-owned assets.
- The Group discussed that the default position could be maintaining status quo for existing customers or providing them with a choice about the boundary decision, and having all new customers on option RB. However it was accepted that option RB had certain benefits. For instance, this option was chosen by DNOs to avoid any perverse tactics of avoiding certain parts of the network to evade certain pricing structures and avoid potential discrimination (SLC 19).
- It was the general opinion of the group that change should happen and a start should be made now and it was suggested that any further iterations or changes could be made via open governance arrangements.

Team 3

- The Group members were evenly split across the available options. DNOs tended to favour option Lowered Boundary (LB) or RB.
- Customer representatives expressed concerns about the timing of the boundary change and the adverse economic impact the initiative might cause.
- Option RB was preferred by some team members because it seems technically simpler and less damaging for certain customers.
- There was some support for no change on the basis of timing and uncertainty regarding tariffs.
- There was some support for a hybrid option on the basis of linking the charges to authorised capacity, but there could be issues with customers overstating their capacity requirement in order to avoid costs by pursuing lower charges.

3) What timescales should apply if there is a change in boundary? Should a change be phased in, and how?

Team 1

- The group generally agreed that phasing would help reduce the impact on customers.
- Two customer representatives stated that putting off increased charges was not the sole or main reason they found phasing desirable. They considered a need to allow customers the time to plan for charge changes.
- A DNO noted that customers who are due to receive reduced charges may not be in favour of phasing.
- Phasing over a price control period (e.g. DPCR5) or putting the introduction off until April 2012 were both suggested as options for phasing.

Team 2

- It was generally agreed that a start, i.e. boundary change, should be made despite the uncertainty surrounding the EDCM and the uncertainty caused by a boundary change, and that iterations could be catered for through open governance (i.e.

change accepted). Some thought that the EDCM should bed down first before considering boundary changes.

- There was no mention of phasing.

Team 3

- Most of them supported phasing boundary change.
- Suppliers felt they could not comment on phasing since the EDCM is being developed and they therefore cannot make a proper assessment of the costs involved.

Appendix - List of delegates who registered for attending the workshop

(Note: This list is not the final list of delegates who attended the workshop.)

Leigh Williams	Aecom
Mark Tooth	BAE Systems
Shaun Costain	BAE Systems
Jerry Hutton	British Sugar
Patrick Taylor	Cambridge Economic Policy Associates
Pat Wormald	CE - Electric
Andy Jenkins	CE- Electric
Harvey Jones	CE- Electric
Lynne Hargrave	CE- Electric
Peter Boruszenko	CE- Electric
Andrew Neves	Central Networks
George Moran	Central Networks
Gregory Edwards	Central Networks
Andy Manning	Centrica
Gareth Davies	Chemical Industries Association
Peter Waghorn	Cornwall Energy Associates
Simon Russell	Corus Group
Brian Harris	EDF Energy
Caroline Barnard	EDF Energy
Patrick Barnes	EDF Energy
Varsha Patel	EDF Energy
Oliver Day	EDF Energy Networks
James Hanks	EnergyQuote inc John Hall Associates
Aaron Donoghue	Engineering Renewables Limited
Simon Page	Engineering Renewables Limited
Eddie Wilkinson	EPRL
John Cole	EPRL
Nigel Bennett	EPRL
Michael Dodd	ESBI Investments
Donna Townsend	ESP Electricity
Mike Harding	GTC
Jerry Paton	Lafarge (UK) Services Limited
Mike Cruddace	Nissan Motor Manufacturing
Helen Inwood	nPower
Rachel Fowler	nPower
David McCrone	Scottish Power
David Mobsby	SSE
Dominique Tilquin	SSE
Jonathan Fellowes	Tesco
Hugh Conway	The Major Energy Users Council
Matthew Croucher	The Society of Motor Manufacturers and Traders Limited
Monkia Bomba	The Society of Motor Manufacturers and Traders Limited
Phil Mann	WPD
Jeff Fodiak	Xero Energy
Peter Wibberley	Yellow Wood Energy