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Dear Mark

British Gas welcomes the opportunity to respond to Ofgem's consultation on Structure of electricity distribution charges: Update document and Licence Modifications. We are happy for our response to be placed on the Ofgem website.

We have some significant reservations about the project timetable set out by Ofgem which are discussed later in this document.

We welcome the proposal to put an obligation on DNOs to produce charging methodologies for both connection and use of system. However we note that in section 2.7 Ofgem propose that to require DNOs to consult on all changes may be cumbersome and that only 'appropriate changes' would be consulted on. This requires a party to determine what is and is not 'appropriate'. We disagree that only 'appropriate' changes should be consulted on, as for all users of the system it is essential that all proposed changes are seen to allow the individual impacts to be calculated and for a response to be submitted, therefore we believe that all changes should be consulted upon or all are deemed "appropriate". We believe this is particularly true where a new system of charging (LRIC) is being introduced. Therefore the obligation should be on the DNO to consult on all proposed modifications. In future this could more easily be done through the DCUSC forum.

Section 2.6 sets out the relevant objectives stating that any proposed modifications to the methodologies will be assessed on this basis, we believe that the initial proposals of the methodologies should also be assessed on this basis. We do not believe that this is clear within either this document or in the proposed licence condition.

In relation to rebates, section 2.10, 4th bullet point, the use of base rate plus three percent is somewhat arbitrary and is unrelated to the DNOs' real financial windfalls which are more closely related to the Weighted Average Cost of Capital not the DNOs' cost of debt for which base rate plus 3 percent is a crude proxy.

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In section 2.14 one of the key problems with rebates is the absence of transparency, or non-discrimination. A simple way to address this would be for DNOs to include rebates methodologies within their charging statements but link the actual use of the rebate mechanism to Ofgem approval. The Ofgem approval would need to be ensured via changes to the licence that prevented a rebate without such approval. A second problem with the use of rebates is the extent to which the financial incentives on over and under recovery are bypassed by DNOs, enabling DNOs to potentially enjoy unwarranted financial windfalls. Consequently, any rebate would need to be subject to the relevant interest rate charge as for any other under or over recovery. It is not clear from the proposals that interest applies to rebates.

With regard to section 3.2 we believe that naturally the price control inputs should form the basis for the charging methodologies, which in turn then form the basis for the charges. We would like to see reference in the licence condition to a set format in which the charging methodology should be laid out. Furthermore we would like to be able to comment on this.

We do not believe the timescales set out in 3.4 are practical. On change of price control, many of the individual cost components (price control allowances) may increase or decrease in a significant way. We do not believe it is realistic to use the allowed revenues from this price control period as the basis for a charging scheme which will operate in the next price control period. We believe the aim should be to use the predictive figures for the 2005/06 period as they emerge, i.e. Ofgem's initial proposals will be published in June 2004 and refine them as the final allowed revenue is agreed.

Again in section 3.7 it is proposed that not all charges are consulted upon but as previously stated we believe all changes should be consulted upon, either by Ofgem on behalf of multiple DNOs or individually by a single DNO.

We do not agree that Ofgem should allow 'Enhanced Capital Allowance' for power factor correction equipment whilst the losses incentive scheme is in operation. This would allow the DNOs money to install this equipment then allow them to receive additional incentives for reducing losses. There should only be one scheme in operation at any one time for the same purpose.

In section 6.2 we would strongly oppose the introduction of these changes earlier than 2010 for existing connectees and we look forward to details of Ofgem's proposals on the structure of charges that provide an equitable arrangement for this complex charging relationship.

We agree that this work should be pursued alongside the scope of the DCUSC forum, however we believe that the two should develop close ties so that where relevant these arrangements can be included in the DCUSC.

The Licence Modifications currently do not include an obligation on a DNO to consult on all proposed modifications to their charging methodology (connections and use of system) with all users of the system and interested parties. Therefore paragraph 6 states that a DNO should send modifications to the Authority but only states that a

copy of the notice is send to users of the system. Additionally, there is no timescale associated with sending this copy; we suggest that users of the system should be given the same notice period as Ofgem, namely 3 months.

Condition 4A and 4B 3 (a) should include 'furnish the authority and all users of the system and other interested parties'

We believe the first hard copy of the charging methodology should be provided to any user of the system free of charge, or at the very least, a copy should be available to download from the DNO's website at no cost. We suggest that any subsequent hard copies would be subject to an appropriate charge.

On a final point, we suggest that it is essential that any connection offers to potential connectees received from a DNO prior to 1st April 2005 are honoured. Commercial decisions are made throughout the industry on the rules and regulations applicable at the time and these connectees should be treated the same as a current generator who also paid deep connection fees with no use of system charges.

We hope these comments have been useful, please do not hesitate to contact me if you have any questions.

Yours sincerely

Roddy Monroe
Regulatory Issues Manager