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Our ref

Your ref

Date

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Dear Mark

Notice Under Section 11A (3) re Modification of Distribution Licence Standard Conditions 1, 4, 4A, 4B and 4C. (Structure of Charges)

Further to the Notice issued under Section 11(3) of the Electricity Act dated 6 April 2004, regarding the proposed modification of Standard Condition 1, 4, 4A, 4B, 4B and 4C of the distribution licence (relating to the Structure of Charges) and the associated Update document, I am writing on behalf of Western Power Distribution (South West) plc and Western Power Distribution (South Wales) plc.

Proposed licence modifications

We accept the principle behind these licence amendments and do not propose objecting to them. However we have the following reservations.

- (1) We would wish to ensure that in accepting those modifications which go beyond the requirements needed to comply with the EC Directive, this does not prejudice our position in respect of the Distribution Price Control Review licence modifications which have not yet been determined.
- (2) We note the requirement to publish a statement of 'the methods by which and the principles on which the charges (if any) for availability of distribution capacity on the licensee's system' already exists under Condition 4(2) (c). Therefore it could be argued that the requirements of the existing licence condition already comply with the EC Directive.

Notwithstanding the above, the drafting of 4 and 4A is confusing in a number of ways highlighted in the attachment to this letter. We would like to see some redrafting to address this.

Interim Arrangements

We support the proposed approach to setting a connection charge boundary as described in the guidance note in appendix 2 of the paper. We also agree that a consequence of this will be that slightly different arrangements will be needed to deal with refunds under the connection charge regulations. We continue with the belief that changes are needed to the de-minimus level of refunds to non-domestic connections as highlighted in our response to the November 2003 Initial Decision Document.

We do not believe that there should be prescription on the form of the methodology statements.

We agree that where assets are recovered from the system as part of reinforcement, any residual value should be retained by the DNO on behalf of customers for future use on the system.

We note Ofgem's views on tariffs for distributed generators and will continue to develop a capacity based charge that varies by voltage of connection.

We believe that billing for DUoS should be via a Supplier in the vast majority of cases. Where it is directly to the connectee, the site should be CVA registered and the connectee a signatory of the BSC. We would then need to put in place appropriate credit cover arrangements with the connectee to reflect the risk of defaulting on DUoS payments.

We agree that charges for low power factors should only be levied on large customers.

Longer term framework

We remain of the view that the development of shallow UoS charges that contain a locational cost message for the bulk of connections will be unachievable at an economic cost. Resources should be concentrated on a charging system based on the voltage level of entry to and exit from distribution networks and continuing with a locational message in connection charges.

Please do not hesitate to contact me should you require further information or expansion of our views.

Yours sincerely

R G WESTLAKE
Regulatory & Government Affairs Manager

Comments on the proposed licence amendments

1. In the interests of clarity and transparency, the requirements relating the charging statement and the charging methodology should be separated between Condition 4 and 4A. Condition 4 could cover all the requirements relating to the charging methodology statement mostly in 4A, and Condition 4A should cover the requirements relating to the charging statement currently in 4.
2. The drafting of the latter part of new Condition 4 (2) appears to be duplicated at 4(6) but also possibly in conflict. 4(6) requires a DNO to give Ofgem 3 months notice of price changes together with an explanation of the proposed changes. 4(2) is unclear due to wordy drafting. It seems to say that if there is a price change other than a change in relation to the charging methodology, then the DNO no later than the day the changes take effect must provide Ofgem with a revised charging statement. However in this case Ofgem approval would not be required. DNOs may also need to revise the charging methodology statement, although it expressly states that the price change must be other than in relation to the charging methodology. Redrafting would be helpful.
3. (b) Condition 4 (10) relating to the charging methodology statement is duplicated at 4A (1) to (3) and again there is confusion. 4(10) requires distributors to ensure that the charging methodology statement is reviewed annually and any necessary revisions made to ensure continuing accuracy. Only changes to the form of the statement require Ofgem consent. 4A (1) requires DNOs to review the charging methodology annually to ensure that it continues to achieve the relevant objectives. The process under 4A (3) seems to require all changes to the charging methodology to be approved by Ofgem.
4. In 4B there appears to be no continuing provision to alter the form of the connection charging statement as required under 4(a) and revise the statement annually.
5. There are also the following minor drafting errors:
 - (a) We assume that paragraph 1 (c) should refer to a statement of the “use of system charging methodology” as defined in Condition 1.
 - (b) 4B (17) (b) after ‘methodology’ “it shall” should be inserted.