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Dear Donna

Regulation of Independent Electricity Distribution Network Operators

Thank you for giving ScottishPower the opportunity to respond to the above consultation document. We have detailed our comments on the area of the consultation relating to Charging Arrangements for IDNOs.

In terms of pricing offers, it is normal for suppliers to structure their prices differently depending on whether a customer has a Non Half Hourly (NHH) or Half Hourly (HH) meter.

NHH customers are offered a 'tariff' that has the DuoS and any other costs rolled up into the tariff. These customers can be categorised as domestic or non-domestic. Suppliers may adjust their tariffs in accordance with changes in DuoS.

On the other hand, HH customers see a full breakdown of the DuoS, TuoS and other charges as well as the supply margin details; this means that these customers are subject to DuoS 'pass through' and feel the immediate impact on any rise or fall in DuoS.

As a result of these separate pricing methods, ScottishPower's billing system accommodates NHH and HH customers in different ways.

Existing Charging Arrangements

Under the interim arrangements, an IDNO's DuoS is capped at the DuoS of the equivalent incumbent distributor for domestic customers only. This means that suppliers can continue to offer to supply a P62 domestic customer based on the tariff offered to equivalent non-P62 in the geographic area in which the IDNO is operating.

Half Hourly P62 customers do not have the DuoS elements of their bill covered by the interim arrangements, and suppliers of these customers need to have the systems and processes in place to allow any increase or decrease in DuoS to be passed straight through to the customer. This charging scenario is no different from that of non-P62 customers with DuoS 'pass through' occurring.

ScottishPower have concerns with the current interim pricing arrangements (and any enduring arrangements) for **NHH, non-domestic customers**. The DuoS for these customers is not subject to the interim arrangements and is therefore not consistent with the DuoS charged by the incumbent distributor to equivalent customers within this category. This means that the current tariff arrangements that a supplier has on offer may no longer be suitable for this customer type where an IDNO is involved.

The alternative may be to offer customers different tariffs depending on who their distributor was; however this would also be a huge undertaking. Given the complexity and range of

tariffs that are currently on offer from suppliers on the basis that there is only one distributor per GSP, it quickly becomes obvious that the number of tariffs that a supplier would have to support would quickly become unmanageable. For example, with just one IDNO and one Distributor operating outwith its traditional area, a supplier would need to support three times the number of tariffs it would under the pre-P62 arrangements. The cost and process to update these systems every time an IDNO entered the market or an existing distributor decided to operate in another area would be substantial.

Registration and billing processes do not support the pass through of DuoS costs for NHH customers. In order to manage this change would require extensive changes to supporting processes and systems. This is not feasible, especially as the exact long-term volume of P62 customers is unknown.

ScottishPower therefore believe that the only way forward from a Supplier perspective is for Ofgem to cap all Non Half Hourly DuoS charges against the equivalent incumbent distributor charges. This solution would mean that the current systems and processes within the market would require only slight modification to be able to handle this set of P62 customers.

It is important that there are identical DuoS charging restrictions on an IDNO and on an incumbent distributor operating outwith its traditional area. These restrictions should be enforced via licence conditions.

ScottishPower have been involved within the IGT market since inception and have actively participated in discussions and workgroups in the introduction of Relative Price Control. The main areas of concern relates to the setting of the Annual Quantity value and the lack of consumption profiling. For domestic premises the AQ value is estimated based on the house type and geographical location and for non-domestic premises on an estimate of the value agreed by the IGT, Shipper and consumer. The Supplier is not involved within the process of determining AQ values. The AQ value is set for a period of 10 years and is fundamental in driving transportation costs over this period. Therefore, actual consumption recorded at the premise will have no effect on the level of transportation costs applied by the IGT. Changes to the AQ value will only affect the element of Transco CSEP charge for forthcoming years as a result of any AQ Review and only where the IGT provides these new values to Transco.

If RPC was introduced for IDNOs based on equivalent guidelines as is present for IGTs, Suppliers would face similar risks in that they may not be able to recover costs against revenue collected under current tariffs. Problems would also exist in Suppliers requiring making costly system changes to cope with differing charging arrangements, as is the case within the gas market.

ScottishPower would therefore not support the introduction of RPC for IDNOs.

Conclusion

ScottishPower would propose that the current interim price restrictions on the DuoS of IDNOs should be extended to cover all NHH customers and also existing PES Distributors operating outwith their traditional geographic area.

If you wish to discuss any of the comment made, please do not hesitate to contact me on the above telephone number.

Yours sincerely

Marie Clark
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ScottishPower