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DATE 9th November 2004
NUMBER OF PAGES INCLUDING THIS ONE
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TO **Mark Cox**
FROM Mike Thornton
COMPANY Ofgem
OUR REF
YOUR REF Structure of electricity distribution charges

Reference: Consultation paper: Proposed DNO charging methodology statements – 235/04.

In response to the above document we like to put forward the following comments for your consideration in relation to the proposed reactive power charges:

a) We fully concur with the Ofgem view on the need for reactive power charges to ensure efficient use of the system, maximise availability capacity and to address environmental issues in the need to reduce CO_2 emissions.
b) However it does need to be emphasised that to reduce effectively system losses and demand, any charging methodology needs to reflect both kVArh usage and kVA max demand charges. A kVA max demand charge on its own would not and does not reflect fully the operating power factor and the benefits of improving the system efficiency.
c) The charging methodology needs to be fully transparent and the charges set at such a level that will both incentivise and reflect the benefits of improving the operating power factor.
d) Clarity does need to be given at to what constitutes a large customer. Our interpretation would be a connected customer that is non-domestic and monthly billed account with a 100 kVA min demand.
e) Pre privatisation the various tariff structures throughout the country, for connected parties, included incentives/penalties to improve their operating power factors from between 0.9 to 0.98 lag depending upon the REC. As we know these incentives have reduced significantly in the past and in some cases totally removed, therefore we put forward for consideration that there should be a universal common minimum efficiency target to be achieved. This would then give a clear and defined lead as to the need for efficient use of the system. It could be considered that a level of 0.95 lag be targeted as an acceptable average minimum power factor which would support the view of Ofgem that connected parties are encouraged to operate their systems near unity.

We trust the above may assist your deliberations regarding the reactive power charges in the proposed charging methodology.

Regards

Mike Thornton
National Power Quality Sales Manager
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