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9 November, 2004

Networks – Distribution  
Office of Gas and Electricity Markets  
9 Millbank  
London  
SW1P 3GE

For the attention of Mark Cox

Dear Sirs,

**COMMENTS REGARDING DNO DRAFT SUBMISSIONS – PROPOSED DNO CHARGING METHODOLOGY STATEMENTS**

Further to our meeting at your offices on Tuesday 3 November. Please accept our thanks for your time and the consideration you and your colleague showed us.

On behalf of our members, I would like to submit some comments and observations regarding the responses and content of proposed DNO charging methodology statements Paper 235/04. Much has been made of environmental issues regarding climate change and Ofgem's role is to meet increased social and environmental responsibilities. Power Factor Correction is at the centre of this providing an efficient method of reducing of transmission losses through reactive current reduction.

Since privatisation of the electricity supply and distribution network in the UK the incentive to install energy saving equipment in the form of Power Factor Correction Equipment has been eroded. In some cases, there is no incentive to install equipment where there is a clear inefficient use of electricity. We welcome wholeheartedly the work being undertaken by Ofgem and the DNO's in changing the general pricing structure to become more transparent, and to provide incentives to charge for reactive power. We would ask this go further to set benchmarks for a minimum Power Factor and to charge for kvarh below this.

We note that many of the DNO's have taken kVA availability charges as a charge for poor power factor. From our experience, the availability charge incurred by the majority of customers does not change from the date of supply capacity negotiation. The availability thus charged does not therefore reflect the monthly power factor, as the supply capacity is set high. Where customers have found a benefit in reducing their kVA availability the charge levied is insufficient to provide an incentive to install Power Factor Correction Equipment.

We welcome the approach of EDF in their charging methodology and in particular their use of bands such as Band1, unity to 0.95; Band2, 0.95 to 0.75; Band 3 0.75 to... In order to provide a clear incentive to customers to improve their Power Factor, the charge levied must be punitive. As this charge is removed from the Price Control, it is in the interests of the DNO to charge for this inefficiency. The charge must sustain the incentive for customers to improve their power factor through capital investment.

DNO's are actively encouraged by Ofgem to charge for reactive power both through its removal from the Price Control and Capital expenditure when used on their own network. It is therefore disappointing to see the initial responses showing no transparency regarding reactive power (kvarh charge).

We would urge the following to be adopted as best practice:

- Minimum Power Factor set at 0.95
- Applied to all supplies with half hourly metering above 100kVA
- The kvarh be clearly identified in excess of the 0.95 power factor level
- A charge be applied for this excess reactive power sufficient to incentivise the installation of correction equipment.

In our experience these charges are being avoided at end user customer level as they are not being passed on by the Electricity supplier although being charged by the DNO. It is in the interests of the DNO to compel that the reactive power charges are passed on to the end customer by the electricity supplier.

We would be happy to help this process in any way and to provide market/ product information to support the DNO's in their implementation of the charging methodology particularly with respect to reactive power charges.

If you have any queries over this or any other matter please do not hesitate to contact us.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Calvin Allen', with a long horizontal line extending to the right.

Calvin Allen  
Chairman  
**Beama Capacitor Manufacturers Association**