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10th November 2004

Sent via e-mail to: mark.cox@ofgem.gov.uk

Dear Mark,

Re: Structure of electricity distribution charges

British Gas Trading welcomes the opportunity to comment on Ofgem's consultation paper titled 'Proposed DNO charging methodology statements' and is happy for this non-confidential response to be placed in the Ofgem library.

Generally, we are encouraged by the work undertaken to date and are supportive of Ofgem's review of the current structure of distribution charges. However, whilst we welcome the increased transparency that has resulted from this review, a number of issues have become apparent which we outline below, referenced using the headings and section numbering used in Ofgem's document.

2.6 We note that Ofgem has not concluded whether the DNO draft methodologies aid cost reflectivity or not. We would expect Ofgem to express a view on this and only to approve the methodologies where cost reflectivity has been improved compared to the existing methodologies. It appears that for some DNOs certain charges are significantly increasing whilst for others they are significantly decreasing. We would recommend that guidance is provided as to why is this the case.

4.11 With regard to scaling, we understand that, irrespective of the pricing tool employed, it is necessary to adjust the level of prices so that they equate to the allowed revenues prescribed under the price control.

4.20 We note the comments on tariff disturbance and the approach some DNOs are taking to minimise this. However, this seems difficult to reconcile with the proposed changes outlined in the appendices where changes from 2004 and 2005 charges range from -100% to +365%. We urge Ofgem to review whether such extremes are appropriate. In general terms, we believe that cost shocks should be avoided with changes phased in.

4.21 With regard to reactive power, we believe that where customers are causing significant costs, incentives to reduce costs should be applied via appropriate charging mechanisms.

4.27 We believe that the use of special arrangements should be kept to a minimum as this will reduce the scope for discrimination, and which by their nature are difficult to review.

Moreover, we agree with Ofgem that there should be some level of predictability/visibility of charges.

4.36 We are generally supportive of preventing undue volatility in GNUoS charges.

4.39 We believe that if micro generation causes additional costs then these should be reflected in charges. However, it is not clear that this is the case in the short to medium term and we urge Ofgem to seek justification from DNOs in this area to ensure that no unfair barriers to connecting this potentially environmentally beneficial technology are imposed.

4.22 We believe that it is clear from the many studies carried out in this area and the recent review of DNO technical standards that connection of DG will generally result in other reinforcement costs being avoided, even if overall there will be a cost increase. Therefore the charging methodologies should take account of this. However, we are surprised that this has not been addressed in DPCR04, i.e. there has been no adjustment to non-DG capex allowances and/or the DG incentive rates to reflect these avoided costs. Consequently, as DNOs will receive unwarranted windfalls via DPC04 it is hardly surprising that this is omitted from their charging methodologies.

If you wish to discuss any aspect of this response please do not hesitate to contact me on the above number.

Yours sincerely

Roddy Monroe
Regulatory Issues Manager