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## **Structure of Electricity Distribution Charges - Proposed DNO Charging Methodology Statements**

Dear Mark

Central Networks have contributed actively to work on the structure of charges through the Implementation Steering Group, and will continue to do so in the future.

In common with all other DNOs, we have submitted draft methodologies into the consultation / approval process. We note that there is considerable diversity between the methodologies submitted and that, in respect of charges for demand (rather than generation), this generally reflects DNO's established methodologies. We believe this is evidence of the way in which the methodologies have been developed and improved over time, and that this is a sign of effective innovation by DNOs. As such we believe that approval of these diverse methodologies is appropriate ahead of industry-wide work to develop new and better methodologies for the future. We would also consider it regrettable if, as a result of this work and presumed alignment of methodologies, useful future innovation was stifled.

The consultation paper (5.5) states Ofgem's view that "*.... models used to set DUoS charges need to provide pricing messages in order to adequately incentivise the siting of demand, particularly at the HV and EHV voltage levels.*". DNO's current tariffs are generally either 'service area wide' or 'site-specific'. The idea of a middle way between these two extremes is attractive in theory, and is something that we have thought seriously about on a number of occasions, but it is likely to prove very difficult to

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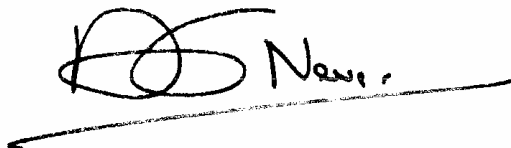
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implement in practice due to the complexity of the cost messages that DNOs might wish to reflect. Furthermore, because electricity is a relatively minor input cost for most industrial and commercial customers, cost messages would have to be highly exaggerated in order to impact the location choices of all but a very small minority of HV and EHV customers. There is a danger therefore that the disadvantages in terms of fairness and discrimination would outweigh the small beneficial impacts. We would be happy to be proved wrong on this, and will participate fully in work to develop methodologies that produce the right customer behaviours, but are not optimistic.

The consultation paper (5.19) states Ofgem's view in connection with Generation that "*.... a tariff should be published for EHV and this should be locational as far as possible.*". We would be happy to work on the development of such tariffs in the future but, as outlined above, believe the difficulties of developing acceptable locational tariffs will be very considerable. In the mean time we believe the ability of site-specific tariffs to reflect locational aspects of generation connections make them preferable to generic service area wide tariffs for EHV generation. The use of the latter would completely obscure any locational messages and encourage inefficient location.

In conclusion Central Networks supports the structure of charges project, but has reservations about some of the current ideas. We are also keen to avoid creating an environment which has the effect of discouraging beneficial future development and innovation.

Yours sincerely

A handwritten signature in black ink, consisting of a stylized circular scribble followed by the name 'Neves' written in a cursive script. A horizontal line is drawn underneath the signature.

Andrew Neves  
Tariff and Income Manager