



Mark Cox
Distribution Policy - Networks
Ofgem
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**Regulation of Independent Electricity Distribution Network
Operators
Initial Proposals Document - January 2005**

Dear Mr Cox,

Thank you for the opportunity to respond to your recent consultation regarding the regulation of Independent Electricity Distribution Network Operators (IDNO).

This response is from the retail business of E.ON UK and therefore only attempts to address those areas within the consultation that are of concern to our retail activities.

Charging Arrangements

We believe of the two options being put forward by Ofgem for implementation for the governance of IDNO charging methodologies that Proposal One is preferable.

Experience however that our retail business has gained from operating with a Relative Price Control (RPC) charging methodology for Independent Gas Transporters (IGT) leads us to believe that this is a complex and difficult methodology for suppliers to validate the accuracy of charging levels.

Therefore we are sceptical that over time it will succeed its intended purpose of reducing the potential or perceived risk to supply businesses of different Use of System charging in the same geographical area on different electricity networks.

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We believe that it would have been preferable for the original Option A from the previous Ofgem consultation to have been implemented as a long term method for setting IDNO charging levels. Ensuring that the costs that suppliers incur for comparable customers on different networks are the same makes DUoS invoice validation easy and mitigates the risk of suppliers setting inappropriate tariff prices.

If this approach were to be adopted then there would not need to be a period of control or review and hence industry administration costs would also be reduced.

The risk to IDNO of local DNO charging varying greatly year on year and therefore creating problems for the viability of their business is we believe very low. DNO, like supply businesses, prefer for charging levels to be maintained at a predictable level with as few variations as possible.

There is a risk that the adoption of an RPC methodology as suggested in Proposal One may lead at some point in the future to some suppliers adding surcharges for customers connected to an IDNO network as is seen currently in for gas customers connected to IGT networks.

An important area concerning charging arrangements for suppliers not mentioned within this consultation is the structure of DUoS charges and the methodologies used for invoicing. A common approach to invoicing should be adopted by all DNOs. The first active IDNO into the market has adopted a method of charging which differs significantly from that currently used by all existing DNO.

This creates additional costs for a supply business in processing and validating their invoices which in turn again creates the risk that suppliers will introduce specific IDNO tariffs or surcharges to recover the additional costs of servicing customers connected to these networks.

Commercial Issues

Specific responses to the questions raised by Ofgem:

The appropriateness of aligning contractual arrangements in the electricity and gas industries, specifically quantifying the costs and benefits and the practical issues involved in changing the contractual arrangements in electricity?

We do not support the proposal to attempt to align the contractual arrangements for IDNO to those currently used for IGT. The methodology currently applied in gas is very complex for shippers/suppliers to administer and results in a higher risk of inappropriate transportation costs for customers connected to an IGT network.

The methodology currently used in electricity is preferable and allows suppliers to receive DUoS charges from only one company. This company controls the MPAS system where the master records concerning the customer's connection to the network are stored. Passing of information between distribution businesses in order to facilitate the charging of suppliers by all DNO and IDNO involved in supplying a customer is far more costly to administer overall for the industry and is more likely to be affected by errors.

Quantitative information on the arguments for and against metering

The accuracy of information concerning where energy is used is vital to ensuring that costs are appropriately and accurately targeted at relevant industry participants.

At a high level we would draw a comparison to the gas market where boundary metering was not adopted for the introduction of IGT.

The problems that have been created in this market could we believe in some part have been mitigated by the use of the boundary metering and the added information that this provides. In the current gas market some supply companies charge an annual premium of £30 - £50 per annum for IGT customers. A proportion of this is due to the lack of information that is available and therefore the uncertainty that the suppliers feel they are being exposed to.

We therefore believe that the potential cost of poor data to the industry far outweighs the cost of installing boundary metering by the IDNO at the time it constructs its new network.

Whether metering is required for HV and LV connections

We would prefer boundary metering installed at every boundary between a licensed DNO and IDNO.

Whether there should be a de-minimis level of connections before a meter is required


We would prefer boundary metering installed at every boundary between a licensed DNO and IDNO.

How DNOs should count customers connected to downstream networks for the purposes of RIGs reporting and the IIP incentive scheme

We believe that the Quality Standards should be applied to all DN on an equal basis. Regardless of the reporting measures finally adopted we would not wish to see customers who are entitled to compensations payments under Quality of Service regulations not receive these due to disagreements as to whose network was at fault.

If you have any questions concerning this response then please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'AGT Travell', with a stylized flourish at the end.

Alex Travell
Head of Supplier Management Development
E.ON UK Retail Regulation