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Structure of electricity distribution charges - Consultation on the longer term charging framework

Dear Mark,

Central Networks has contributed actively to the work of the Implementation Steering Group from its inception, and has put forward its detailed views for discussion in that forum. This response is therefore restricted to comments on higher level matters, rather than particular details.

The ISG has generally agreed that there is need for change in the charging framework, and that there should be more commonality between DNO's methodologies, but has produced very little agreement as to what the longer term framework should look like. We hope further clarity will emerge as a result of the recent public workshop and the responses to this consultation, and that a more detailed set of guidelines will be proposed by Ofgem. Such guidelines should go well beyond the very high level principles that we have now, and encompass clear decisions on key matters such as the connection / use of system boundary. The absence of more detailed guidelines could fatally affect the ability of this project to deliver an appropriate longer term charging framework within the desired timescale.

We are concerned that Ofgem's intention to hand over this project to the DNOs following the outcome of the consultation may result in a leadership vacuum. The DNO groups are completely separate entities, with different historical positions and future ambitions. In the absence of strong leadership or incentives for DNOs to agree common methodologies there is

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a real danger that the project will fragment and fail to deliver the desired benefits. We would therefore urge Ofgem to reconsider its plan to relinquish leadership of the project.

As stated in our response to the October 2004 consultation paper, we believe it would be regrettable if helpful future innovation was stifled as a result of the alignment of methodologies. Rigid alignment could make it extremely difficult to carry through subsequent changes, and might cause methodologies to effectively 'fossilise'. Our aim in taking this project forward should be to strike a balance between methodologies that are aligned, and an environment in which helpful innovation can continue to flourish.

I hope these few comments are helpful.

Yours sincerely

Andrew Neves
Tariff and Income Manager