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Structure of Electricity Distribution Charges: Consultation on the longer term charging framework

Dear Mark

Thank you for the opportunity to respond to this consultation document. I am responding on behalf of E.ON UK's supply and generation businesses. Central Networks, our distribution business, is providing a separate response.

Charging Principles

We welcome the move towards a longer term electricity distribution charging framework that provides increased security (in terms of predictability and transparency) for network users when planning pricing levels for their customers. Although implicit in the principles set out in the document, we feel that the addition of *consistency* as an explicit principle is necessary.

By consistency, we mean two things:

- firstly, year-on-year consistency (i.e. avoidance of sudden large changes in network prices – over 100% in the case of some of our customers in the Manweb region). Significant changes in tariff recovery are not helpful in maintaining a predictable environment and should be smoothed out over a number of years;
- secondly, consistency of charging format across regions. The format of charging varies from one DNO to the next – some consist of simple fixed and variable elements, whilst others include charges for availability, reactive power and so on. One DNO still includes charging for meter asset provision in its DUoS charges, despite all other DNOs' having unbundled these charges. We would prefer to see as simple and as coherent an approach as possible.

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Consistency would therefore be a valuable principle in helping to increase the transparency and predictability of the charging methodology. This will require a high degree of co-operation between DNOs in developing a longer term charging methodology. Consequently, Ofgem must make sure that it does not withdraw leadership from the process until it is clear that all controversial issues have been resolved. After that, some form of continuing co-ordination role will be required and consideration should be given as to whether the Electricity Networks Association could undertake this function.

Locational charging

From a technical, economic and academic point of view, locational charging for distribution networks is an attractive concept. E.ON UK has argued for cost reflectivity in transmission charging and we can understand the reasons why this might be extended to distribution. However, we do believe that a balance has to be struck between cost-reflectivity, simplicity and comparability of charges, to ensure that any benefits are not outweighed by increased costs for system users in terms of uncertainty or more administration. This means great care has to be exercised when contemplating such changes; we do not believe that, in the short term at least, they would be appropriate, since:

- it would be very difficult for suppliers to set prices based on location DUoS variations, since we would either (a) have hundreds of tariffs, which would confuse customers and put further pressures on suppliers' billing systems or (b) we would keep the current tariff arrangements and cross-subsidise customers within each region;
- as paragraph 3.68 implies, the DNOs' current methodology of billing suppliers via 'Supercustomer Billing' may be unable to cope with locational pricing. DNOs would therefore need to have much more sophisticated billing systems, and the associated costs may outweigh benefits from stronger locational signals;
- an increase in complexity might be perceived to be anti-competitive, as it potentially represents a barrier to new entrants;
- most distributed generators would not welcome locational charges. Changes in distribution and transmission charges in response to variations in balances of supply and demand would add to existing levels of uncertainty.

If there is a move towards some form of locational charging then these issues will need to be carefully reviewed and managed.

Generation DUoS Charging

In terms of Generation DUoS charging, some form of phasing in would appear appropriate. Furthermore, we support the principle that if a generator had paid deep connection charges then it should be recompensed a proportion of these to avoid double payment, as some of the costs would now be recovered through GDUoS charges.

Line Loss Factors (LLFs)

We agree with Ofgem that improved transparency of LLFs would aid suppliers and customers. Any moves towards a common “best practice” approach for projecting future LLFs would improve suppliers’ forecasting accuracy and reduce costs associated with balancing generation and demand portfolios.

Presentation of Charges

Finally, if charging structures are to be aligned, then it would be helpful for DNOs to present the charges in a more consistent and interactive format (e.g. a standard spreadsheet). This would benefit consumers and suppliers because:

- it would reduce the amount of time suppliers and customers spend interrogating their statements; and
- it would reduce the level of interpretation, which is likely to mean fewer queries are directed to the DNOs to clarify charges.

We hope you find these comments helpful and constructive. Please contact me if you have any questions on the issues raised in this letter.

Yours sincerely

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