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Mr Mark Cox
Distribution Policy
Office of Gas and Electricity Markets
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Our ref	Your ref	Date
677-10/05/05		20 June 2005

Dear Mark

Structure of electricity distribution charges - Consultation on the longer term charging framework - May 2005

I am responding further to the publication of the above document published in May 2005 on behalf of Western Power Distribution (South West) plc and Western Power Distribution (South Wales) plc.

We agree with the charging principles of:

- Cost reflectivity
- Simplicity
- Transparency
- Predictability and
- Facilitation of competition

However, due to the inevitable conflicts between these principles a wide range of charging methods can result and the choice between them will be dependent on the relative weights put on each of these principles.

From the feedback we have received, predictability appears to very high on the list for most users as they are needing to either make long term investment decisions or decisions on how to pass on these charges to end customers within other charges that they want to apply for periods exceeding a year.

Methodologies with strong locational signals within the DUoS charge are unlikely to have this predictability feature as costs will be quickly reallocated around the network as the demand/generation balance changes. Additionally, the majority of customers only respond to a locational signal at the time of connection. The locational message needed to influence subsequent behaviour (i.e. closure of a site) is large compared to the messages that could be expected in UoS prices. Hence we believe that a strong locational message needs to be retained within connection charges rather than moving towards an even shallower connection/UoS boundary.

Regarding cost drivers, we agree that capacity is a key driver with fault level being significant on parts of the network. Losses are not a significant cost driver and we believe that the analysis contained in the Newbury report significantly over values losses as it does not take account of the actual distribution of load along a feeder.

On the issue of scaling of prices to revenues, whilst understanding that Ramsey pricing can give appropriate economic signals, it is dependent on an understanding of the elasticities of different customers and customer groups. We have little evidence of these elasticities and hence would have great difficulty in justifying this approach. We continue to support uniform scaling of prices to reach allowed revenue.

Whilst any method of bringing generators connected before April 2005 into the same charging arrangements as those connected after April 2005 will have its difficulties, we believe the historic cost adjustment approach outlined in the paper is likely to be the most transparent method. Given that data will only exist for recent history, a cut off date is likely to be needed prior to which this calculation would not apply.

Whilst some generators can bring benefits to the network during some periods of time, we remain unconvinced that reliance can be placed on these for network security purposes without specific performance and contractual terms. Hence we believe that negative UoS tariffs are inappropriate and should be capped at zero. Any realisable benefits that generators or demand sites can bring should be reflected via separate ancillary services contracts.

Treating reactive power differently for demand and generation is difficult as many sites with generation also have a demand requirement. Hence symmetrical treatment is highly desirable.

We agree that some degree of consistency between DNOs is desirable, however we are unclear of how this can be achieved without Ofgem's leadership.

Please do not hesitate to contact either myself or Nigel Turvey, Design & Development Manager (nturvey@westernpower.co.uk Tel 0117 933 2435) should you require further information or expansion of our views.

Yours sincerely

ALISON SLEIGHTHOLM
Regulatory & Government Affairs Manager