

Mark Cox
Distribution Policy
Ofgem
9 Millbank
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Dear Mr Cox

Regulation of Independent Electricity Distribution Network Operators.

energywatch welcomes the opportunity to respond to Ofgem's decision document. In general, energywatch supports the approach adopted by Ofgem.

The relative price control mechanism ("RPC") has been adopted for the more mature gas connections markets after a period of examination and consultation. The justifications for implementing RPC in the gas connections market were to provide protection for the interests of consumers and to facilitate transparency in tariff setting. energywatch believes that these objectives are equally valid in the electricity connections market and believes that RPC is an appropriate mechanism to achieve those aims.

energywatch's main concern with the adoption of RPC is ensuring that overall, tariffs are reduced and the DNO's operate efficiently. The introduction of RPC, by its very nature equalises revenues associated with connections, although the individual costs facing each IDNO, or competing DNOs are very different. Ofgem must ensure that when it is developing price controls that the practices of the most efficient IDNO, or DNO are taken into account. If Ofgem neglects this opportunity for comparative regulation it is clear that tariffs will be inflated and the most efficient IDNOs will accrue excessive profits. RPC should be used to promote and encourage efficient practices in order to generate tariff decreases, rather than create an environment of stagnation and excessive profits.

energywatch notes that the tariffs charged by DNO's to connecting IDNO's are not transparent. In the gas market, the tariffs are paid by Users (shippers) to the relevant transporter, and in the case of a CSEP situated customer the relevant DN and IGT. These tariffs are published by the DNs and applied equally to all offtaking users. Although we understand that it may not be appropriate to mirror these arrangements in the electricity market we are

concerned by the opacity of the current arrangements. It is our understanding that the tariffs charged by DNO's to IDNO's are determined through bilateral negotiations. To ensure consistency with the aim of generating maximum cost savings for customers through the realisation of operational efficiencies, energywatch suggests that tariffs should be published and consistent. This approach would ensure that competition is facilitated, comparative regulation is meaningful and ultimately costs will be diminished. We trust that Ofgem will consider the future charging structures and methodologies of the DNOs as part of this process?

We trust that you find these comments useful and if you have any questions please do not hesitate contacting me.

Yours sincerely

Carole Pitkeathley
Head of Regulatory Affairs