

Mark Cox
Distribution Policy
Ofgem
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16 January 2006

Dear Mr Cox

**Consultation letter – Electricity Distribution Use of System Charging
Modification Proposals: Central Networks and United Utilities - Reactive
Power Charges**

Comments

energywatch welcomes the opportunity to consider the issues raised by this consultation letter.

We consider that charges are cost reflective when, in this particular case, any increased costs of running the distribution network are directly attributed, if possible, to the parties causing those increased costs. To that extent, the proposals put forward by Central Networks and United Utilities appear to provide cost reflective charging which meets their licence obligations.

We are less clear about why there should be different approaches amongst the various distribution companies regarding, first, whether to levy a charge for reactive power and second, the method to be applied to calculate these charges. However, it is our understanding that this may be the result of the consumer mix in particular distribution areas. For instance, some distributors have more distributed generation in their areas which can create particular difficulties in terms of poor power factor connections, leading to additional costs of reinforcement which results in overall increased costs of distribution. It is these which distributors may seek to recover directly from the connected consumers concerned. While it would be our desire to see uniformity of such charges across all distribution networks, where the distributor can provide clear evidence of the existence of particular circumstances, individual to each network, a differential methodology may be justified.

We do not have enough information to provide a view on whether the additional costs to networks are also included in the excess capacity charges levied by distributors. If this is the case, there seems no justification for effectively charging twice for the same additional costs and we would not support the levying of excess reactive power charges to recover the same costs already recovered elsewhere.

However, this underlines why distribution charges require to be made more transparent to users. We would support a clearer expression from distributors of their charges to users.

As indicated above, we understand that the particular consumer mix on a distribution network may have a specific impact, through increased costs, which need to be recovered. On that basis, if it can be shown that distributed generation increases costs due to poor power factor at connection points, then cost recovery from those users is appropriate. However, we also consider that there should not be unnecessary barriers to the connection of distributed generation to networks as they provide an overall benefit in terms of security of supply which is in the interests of consumers, and distributors should be encouraged to provide more active management of their networks to facilitate distributed generation. Charges for excess reactive power in these circumstances must be proportionate, fully transparent and appropriately justified.

Going forward, we will continue to keep these issues under review as and when they are raised, always considering the possible impact on consumers and we would appreciate being kept informed of the progress of the consultation and any related issues to enable us to comment as the need arises.

If you do wish to discuss our response further please do not hesitate to contact me on 0191 2212072.

Yours sincerely

Carole Pitkeathley
Head of Regulatory Affairs