

Mark Cox  
Distribution Policy  
Office of Gas and Electricity Markets  
9 Millbank  
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16 January 2006

Dear Mark

**Response to: Consultation on Electricity Distribution Use of System Charging Modification Proposals: Central Networks and United Utilities – Reactive Power Charges.**

We welcome Ofgem's consultation on the proposals from Central Networks and United Utilities to introduce reactive power charges. Poor power factor will introduce additional costs through the introduction of losses and through the need for distribution assets to be larger than would otherwise be required. Where distributors levy reactive power charges they should reflect the costs in both of these areas. Additionally, such charges need to be equitable across all customers. Therefore, our support of the principle of reactive charges is subject to the following comments:

- The regulatory price control determines the amount of income that a distribution business needs to operate its business. We presume that such price control takes account of the total costs incurred by distributors, including those costs resulting from excessive reactive power. Our understanding is that the income from such reactive power charges is treated as an excluded service and is therefore in addition to income derived from the price control formula. Therefore, in following the principles of cost reflectivity, where a DNO generates additional income through introducing reactive power charges to customers with a poor power factor, one may expect a corresponding reduction in income from customers who do not have a poor power factor. To do otherwise could be viewed as double recovery of the costs (once through income set at the previous price control, and once through charges for excluded services introduced post price control). DNOs already have financial incentives to reduce losses through the price control formula.
- We are unable to understand why, in the case of CN, there is no proposal to introduce reactive power charges for generation as well as demand.
- As an IDNO we are concerned that under these proposals, whilst an upstream distributor may levy reactive charges on a downstream distributor (due to the size of the connection required to accommodate the aggregate load of downstream customers), the downstream distributor can not (under current licence conditions) recover such charges from its customers where they are supplied in the NHH market. Introducing reactive power

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charges should not have the effect of distorting the competitive position of downstream distributors.

Also, SME customers are no less likely to have poor power factor than large power customers. Therefore, if reactive power charges are an effective incentive in the economic development of networks, we believe that work should be initiated to introduce similar arrangements across the NHH non-domestic sector.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Mike Harding', written in a cursive style.

**Mike Harding**  
Governance Manager  
Laing Energy Limited