

Mark Cox
Distribution Policy
Ofgem
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20 January 2006

Dear Mr Cox

**Consultation letter – Electricity Distribution Use of System Charging
Modification Proposals: Central Networks – Excess Capacity Charges**

Comments

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

We support the view that, to keep the overall costs of running an efficient and economic distribution network and to the end consumer to a minimum, it may be appropriate for distributors (DNOs) to charge certain consumers with additional specific charges due to the excess costs they impose on the network. These charges should, however, be cost reflective and fully justified by the DNO, with evidence of how the excess costs are being calculated being made available to the user on a transparent basis.

We agree that, for instance, if reinforcement of the network is necessary to accommodate excess capacity regularly used by a consumer, that consumer should bear the cost directly. It would be appropriate to levy that charge using a methodology which clearly attributes the cost to the user. However, evidence needs to be made available to the affected user showing that the cost is due not to a one-off occurrence but actually arises from permanent works on the network. Central Networks (CN) has indicated that its proposed methodology will not smear costs across all users but be more targeted on those parties imposing costs. On that basis, the methodology may be considered as cost reflective. However, CN needs to clarify for affected consumers' benefit why and how the charges are being imposed.

We understand that a different consumer mix on distribution networks can have a bearing on the level of charges imposed. This may give rise to different charging methodologies being used by the various DNOs. Our preference would be for a more uniform approach to the development of charging methodologies for excess capacity charges unless DNOs can clearly justify why there are specific features of their network which merit an individual approach. One specific difference in the methodologies, namely the use of the current month, rather than an excess demand

occurring over a 12-month period, highlights the kind of inconsistency that can arise. Our view is that costs must be regularly incurred before the consumer should be expected to pay. An occurrence of excess capacity which is not repeated should not give rise to a charge as this may be disproportionate to the effect of excess usage on the network.

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