

Mark Cox  
Distribution Policy  
Office of Gas and Electricity Markets  
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27<sup>th</sup> January 2006

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Dear Mark

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

Thank you for giving ScottishPower Energy Retail Ltd (SPERL) the opportunity of responding to the above modification proposal.

We have sympathy with the intention of the Modification Proposal in that customers who regularly exceed their allocated capacity should be incentivised to make the necessary arrangements with the distribution network operator to have the level of authorised supply capacity revised. In turn those customers who do not reach the assigned level of authorised capacity either through a change in business operations or a change in tenancy should be afforded the opportunity to review the level of capacity set. As outlined within the consultation letter, DNOs take different approaches when authorised capacity levels are breached, with some applying excess charges over a 12-month period and not solely for the month in which the excess occurred. Presently all excesses are charged at the normal capacity unit rate.

SPERL are concerned with the inflated unit rate that has been proposed by Central Networks which would then be applied to excess capacity required above the customers authorised capacity level. At present not all Half Hourly customer contracts have the flexibility to allow the direct pass through of Distribution Use of System Charges to the customer. As this group of customer can be contracted for up to a period of 3 years, there are no options available to the Supplier to allow the automatic pass through of additional use of system costs if this proposal is implemented in April 2006. Suppliers will be required to absorb these additional costs until alternative arrangements can be put in place with the customers concerned. Suppliers have based their charges on information available at this time the contract was negotiated. Suppliers are encouraged to offer customers long-term contracts in order to promote stability in charges. While an element of risk is always present when negotiating longer-term contracts, the introduction of additional charges within a limited notice period does not serve the best interests of either the Supplier or their customers.

Even for those customers on pass through contracts, the collections of additional use of system charges can be costly to administrator and are unpopular with customers. SPERL believe that if implemented, other DNOs will follow this proposal and introduce additional premiums for customers who exceed their authorised capacity. While we are actively seeking to align our billing systems across all DNO regions, we are not yet at the stage of uniformity therefore in certain instances, additional charging elements that deviate from the present structure cannot be collected through customer billing. Pricing signals directed at specific customer groups within DUOS charges will only influence customer behaviour if Suppliers can accurately pass these through their

contractual and billing arrangements in place with their customers. With the review of longer term charging arrangements well underway, SPERL are concerned that changes made now will only have to be reviewed again in light of the outputs and decisions taken forward from this work.

In summary, we believe that if this change is to be approved that a greater lead-time is required to allow SPERL adequate timescales to revisit customers' contractual terms and to ensure our billing systems are amended to cope with this change. If you wish to discuss this matter in greater detail, please do not hesitate to contact me.

Kind regards

Marie Clark  
Energy Commercial Manager  
ScottishPower Energy Retail Ltd