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# **Structure of electricity distribution charges**

**Stakeholder questionnaire – initial findings**

*March 2006*

# Stakeholder questionnaire – initial findings

## Background

1. An ENA SofC working group has been established to develop an enduring solution for distribution charging methodologies.
2. As part of the work being covered by the group, distribution businesses are trying to gain a clearer understanding of our customers' views and requirements going forward, hence the reason for producing the stakeholder questionnaire. The more information the distribution businesses have at their disposal the better they will be able to achieve an enduring solution that not only meets the licence obligations, but also meets the needs of their customers.
3. This document sets out the initial findings from the stakeholder questionnaire circulated in December 2005 and January 2006.

## Questionnaire scope

4. The questionnaire was designed to capture initial information to inform the distribution businesses' discussions, and to establish those areas where a consensus view already existed.
5. The subject areas covered were:
  - General information about the respondent;
  - Charging principles;
  - Type of model;
  - Cost drivers;
  - Locational signals;
  - Tariff structures; and
  - Published material.

## Respondents

6. The questionnaire was initially circulated to members of the Energy Retail Association (ERA), in December 2005, and a limited response was received.
7. The questionnaire was then re-circulated, to a wider audience, in January 2006. This included ERA members, ISG members, large end users and other industry contacts. This increased the number of responses to twelve, five of which were asked to be treated as confidential.
8. The companies who responded were:
  - Bizz Energy;

- BOC Gases;
- Centrica;
- EON;
- Laing Energy;
- Russell Power Limited;
- SP; and
- Five other confidential responses

## Initial findings

9. The following table details the initial findings from the questionnaire.

Question	Initial Conclusions
<p><b>1. What type of industry stakeholder are you?</b></p>	<p>At the time of publication there were only 12 respondents to the questionnaire, most of which represented the supplier or generator community. 5 of the respondents asked for views to be treated as confidential.</p>
<p><b>2. Are you aware of the ongoing structure of charges (SofC) review?</b></p>	<p>All respondents are aware of the ongoing structure of charges review.</p>
<p><b>3. Have you actively responded to any of Ofgem's SofC consultations?</b></p>	<p>There has been an increase in interest in the SofC review with more responses to the later consultations.</p>
<p><b>4. Are you aware of the interim solutions that were put in place from 01/04/05?</b></p>	<p>All respondents were aware of the interim solutions put into place from 01/04/05.</p>
<p><b>5. Do you understand the impact that the enduring solutions might have on your organisation?</b></p>	<p>58% of correspondents believe that they understand the impact that the enduring solution might have on their organisations.</p>
<p><b>6. The following high-level charging principles have been identified as sitting alongside our licence objectives. Please rank them in order of priority - (1 = most important, 10 = least important)</b></p>	<p>The key charging principles that are of interest to our stakeholders, in order of importance are:</p> <ul style="list-style-type: none"> <li>• predictability;</li> <li>• transparency;</li> <li>• stability;</li> <li>• simplicity;</li> <li>• cost reflectivity;</li> <li>• facilitation of competition;</li> <li>• equitableness;</li> <li>• consistency;</li> <li>• comparability; and</li> <li>• utilisation of existing data sources.</li> </ul>

Question	Initial Conclusions
<b>7. Do you think there should be a consistent methodology for both demand and generation customers?</b>	Opinion is split over whether there should be a consistent methodology for demand and generation customers.
<b>8. Are you interested in the type of costs any new model should take into consideration?</b>	82% of respondents are interested in the type of costs a new model should take into consideration.
<b>8A. If yes, what type of costs do you believe any new model should take into consideration?</b>	80% of correspondents who are interested in the cost input to a model believe that the model should consider both historic and future costs, the remainder thought it should be future costs only.
<b>9. Do you want us to publish our charging models as well as our charging methodologies?</b>	73% of respondents thought it was necessary for DNOs to publish their charging models as well as methodologies. The main reasons for this were the requirements for increased transparency and scenario modelling.
<b>10. Do you seek to do your own forecasting of individual UoS tariffs or estimate your UoS bill?</b>	Opinion is split over whether it is the individual tariff, overall UoS bill or both that stakeholders are interested in forecasting.
<b>11. Over what time horizon are you looking to forecast?</b>	The main forecasting period is >5 years with 32% of correspondents stating this time horizon.
<b>12. The following cost drivers have been identified as influencing network development. Please rank them in order of priority for both demand and generation - (1 = most important, 6 = least important)</b>	Capacity has been identified as the main cost driver influencing network development, for both demand and generation, by a considerable margin.
<b>13. The interim solution introduced a 'shallowish' connection boundary for both demand and generation connections. Are you interested in where the connection boundary should be?</b>	92% of respondents are interested in where the connection boundary should be.
<b>13A. If yes, where do you think it should be?</b>	36% of correspondents believe that the connection boundary should stay at the current shallowish level, with a further 36% of the view that the connection boundary should be deeper. Only one respondent thought that the connection boundary should be shallower.
<b>14. We currently offer average UoS charges for mass market customers at all but the highest voltages. Are you interested in locationally varying UoS charges?</b>	Only 36% of respondents are interested in locational signals.

Question	Initial Conclusions
<b>14A. If yes, in which areas of the market do you think this is appropriate?</b>	The general opinion was that if locational signals were to be introduced it would only be feasible and manageable at the EHV level. If they were introduced further down the network then it is believed that there would be an increased administrative burden for suppliers, more complex tariffs and potential for customer confusion.
<b>15. We currently offer circa 40 tariffs in each of our distribution licence areas. Are you interested in how many tariffs we offer?</b>	75% of respondents are interested in the number of tariffs a distribution business offers.
<b>15A. If yes, please indicate below how many tariffs you feel are appropriate?</b>	Generally the view of respondents was that they would like to see as few tariffs as possible, whilst still enabling us to meet the relevant licence objectives.
<b>16. Would you like to see a generic UoS tariff structure throughout the industry?</b>	73% of correspondents would like to see a generic tariff structure throughout the industry.
<b>16A. If yes, what elements would you like to see?</b>	The most common view was that the generic structure should consist of a fixed charge, two unit charges and an availability charge.
<b>17. The current non-half hourly (NHH) tariff structure includes fixed and unit elements only due to limitations of the supercustomer billing system, although the split between charging elements can be varied. Are you interested in the split between the tariff elements?</b>	78% of correspondents are interested in the split between NHH tariff elements.
<b>17A. If yes, what elements would you like to see?</b>	Very few respondents expressed a preference as to the split between the charging elements.
<b>18. The current half-hourly (HH) tariff structure includes a fixed, unit and capacity element, although the split between charging elements can be varied. Are you interested in the split between the tariff elements?</b>	67% of correspondents are interested in the split between HH tariff elements.
<b>18A. If yes, what elements would you like to see?</b>	Very few respondents expressed a preference as to the split between the charging elements.
<b>19. We publish the following documents on our website: do you find them helpful?</b>	All respondents found the published information helpful, but would like to receive it in a consistent electronic format.

## **Next steps**

10. The above initial findings will be considered in conjunction with the output of the Structure of Charges workshops and any responses to consultations managed by the ENA SofC working group to inform the scope and complexity of the development of the enduring solution for the long-term charging arrangements.
11. Additional questionnaires may be produced in the future to canvas opinion on more specific issues relating to the development of the enduring charging framework.