

ISG update on the CE Electric UK UoS charging methodology
July 18, 2006

Objective

To provide an update on progress on the CE charging methodologies;

- **Detail the conditions on our methodologies;**
- **Outline our proposals;**
- **Detail progress to date;**
- **Provide feedback form external consultants;**
- **Detail next steps;**
- **Share our communication plan; and**
- **Provide feedback from the ‘Development of CE Electric UK charging methodologies’ letter sent to Supplier/EHV on 26 May 2006.**

Outstanding CE conditions

In December 2005 the Authority determined that the condition on CE's UoS charging methodology should be extended as follows:

- Charges applicable from 1 April 2006^[1] should be set using the current model rather than the revised approach;
- **CE should progress with urgency the development of a revised charging model based around the comments and views provided in the Authorities letter to ensure that any revised model achieves the relevant objectives;**
- **Due to the extension of timescales for completion of this condition CE should also consider other developments in the industry, such as the studies into electricity distribution charging models during the course of this year, when considering a revised model; and**
- **CE should develop a revised UoS charging model to be approved and in place by 1 April 2007.**

^[1] This condition excludes EHV customers whose charges have been determined and the approach approved by the Authority – decision letters of 7 December 2005.

The CE proposal

Type of customer	Proposal
<p>LV & HV demand</p>	<p>Revert back to a DRM type model with average charges and no transitional relief.</p> <ul style="list-style-type: none"> ▪ DRM type approved for other DNOs; and ▪ At ISG on 07/03/06 Ofgem stated that DRM type models will be appropriate for enduring solution at lower voltages.
<p>EHV demand</p>	<p>Maintain our current site-specific model.</p> <ul style="list-style-type: none"> ▪ Removal of transitional relief from April 2007 for those sites below the model value.
<p>Generation tariffs</p>	<p>Maintain our current approach.</p> <ul style="list-style-type: none"> ▪ Enduring solution still under development.

Progress update

- **Consulted other DNOs;**
- **Sourced a model**
 - **EA Technology model (developed in 1998 – seven DNOs involved); and**
 - **This was an update to the original Electricity Council DRM model (1984).**
- **Built the new model based on DRM principles;**
- **Questioned some of the rationale behind the model;**
 - **Construction of representative network;**
 - **Removal of references to metering; and**
 - **LV and customer weighting factors.**
- **Collected the data required to populate and run that new pricing models;**
- **Populated the new pricing models;**
- **Appointed external consulting to give us an independent review and critique of our proposed approach;**
- **Undertaken initial sensitivity and impact assessments; and**
- **Two interim updates with Ofgem (as per the conditions).**

Initial feedback from external consultants

- **“... An obvious weakness with the current approach is that it implicitly assumes that the tariff for the previous year, which becomes the basis for charges in the subsequent year, are reflective of the underlying costs ...” ;**
- **“... In moving to a DRM founded on a reference 500MW network that reflects the manner in which the NEDL and YEDL systems are likely to develop CE is looking to ensure that the tariff is based on its underlying costs ...” ;**
- **“... CE Electric has carefully and comprehensively researched the basis of the DRM as originally proposed by the Electricity Council and subsequently developed by EA Technology ...” ;**
- **“... In doing so CE have revealed that some of the practices in the DRM were founded on policy objectives or market arrangements that may no longer be wholly appropriate ...” ;**
- **“... Their development of a DRM to apply in the NEDL and YEDL areas provides an opportunity to bring the DRM into line with current market practices ...” ;**
and
- **The report provides 10 recommendation for possible builds on current model.**

Next steps

- **Review conclusions and recommendations from consultants (early - mid July);**
- **Refine the final representative network (early - mid July);**
- **Detailed impact and sensitivity analysis; (July)**
- **Document proposals (mid-late July);**
- **Update methodology statements (late July);**
- **Internal review and sign-off (early August);**
- **Meeting with Ofgem to discuss and agree proposals (mid august);**
- **Submission of revised methodology to Ofgem for approval (late August); and**
- **Continue to implement communication plan (on going).**

Communication plan

- Letter to suppliers and large end users updating them of our intentions and requesting comment/feedback; (late May)
- External consultant to review the model (late June);
- Update meeting with Ofgem (early July)
- **Update ISG**
- **Follow-up meetings with consultants (mid July);**
- **Meeting with Ofgem to discuss and agree proposals (mid august);**
- **Submission of final proposals to Ofgem, copied to supplies and large end users for info (late August);**
- **Hold seminar/workshop for suppliers and large end users within our area to explain the methodology (post approval – October/November)**
(Current thoughts are that this should be an annual seminar – to provide a early indication of potential changes, prior to indicative charges)
- **Publish indicative changes (late December); and**
- **Adhoc one-to-one meetings with suppliers and large end users as requested.**

Feedback from the Supplier/EHV customer letter

- **No formal written responses received;**
- **3 informal EHV phone calls;**
 - **Although one of their sites is currently enjoying transitional relief they were more interested in getting more background into the wider SofC debate and are generally comfortable with the information provided to them;**
 - **Although this site is not currently enjoying transitional relief they are asking questions about the way their charges are calculated; and**
 - **The company most adversely affected by the proposal (multiple sites in NEDL and YEDL). Although the YEDL charges are due to increase their main concern are the increase in NEDL. We are currently validating the treatment of the assets driving the price increases.**
- **1 informal supplier phone call**
 - **interested in getting a better understanding of the wider SofC debate.**