Martin Crouch
Distribution Policy
Office of Gas and Electricity Markets
9 Millbank
London
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19th June 2007

Dear Martin

Consultation on use of system charges to new electricity distribution licensees: WPD and SP proposals

EDF Energy Networks welcomes the opportunity to respond to this consultation. This response is on behalf of the three EDF Energy licensed distribution companies, EDF Energy Networks (EPN) plc, EDF Energy Networks (LPN) plc and EDF Energy Networks (SPN) plc.

As a network operator we have, and continue to put significant effort into understanding and improving the cost signal that is sent to customers through our tariff charges. From first principles, tariffs by their very nature are a method of averaging charges to groups of users. The vast majority of users will receive a charge that is as cost reflective as is reasonably practicable within each of the tariff user groups. This tariff approach strikes the right balance between the simplicity of socialised charges and cost reflectivity.

Ofgem's consultation states that DNOs charge on the basis that IDNOs are commercial customers. This is not entirely correct. To date, DNOs have based charges on the voltage at the point of connection and the type of metering installed. While profile class 1-4 tariffs are differentiated (by settlements arrangements) between domestic and commercial for quarterly metered customers, the profile class 5-8 and half hourly (HH) metered tariffs are not. There will be larger domestic based connections that are either monthly read profile 5-8 metered or HH metered customers. Examples of these larger domestic based connections include sheltered housing, hostels, halls of residence, and large houses and mansions.

Therefore, IDNOs will currently be charged equitably with other customers based on their voltage of connection and the metering arrangements. Additionally, the cost reflectivity of our tariffs is improved by implementing separate tariffs for each profile class 5-8 classification and, for HH metered connections, by having five seasonal time of day time bands for unit charges.

Both Scottish Power (SP) and Western Power Distribution (WPD) have rightly identified that the application of a typical domestic profile will increase charges, if compared to some commercial profiles. It is less clear if enough work has been done to establish whether the range of IDNO developments, with the nature of the mix of housing and occupant demographics, is representative of the domestic profiles used. IDNOs tend to be new build developments, whereas typical domestic profiles are based on average housing stock. Additionally, the creation of new estimated profiles for the tariff calculation, as implied by the WPD approach, can require a significant number of assumptions to be made. The effect of these assumptions will determine whether the charge is calculated higher or lower than the equivalent 'normal' tariff. This is likely to lead to claims of distorted competition by the IDNOs if their margins are reduced.

The introduction of these proposals would trigger a move away from the current voltage and metering classifications for tariff differentiation, to establishing a customer type classification. This would set a precedent and we could expect that other customer types would want the ability to 'cherry pick' a cheaper tariff. If we do not make the same options available to other customer types then we may be discriminating between classes of customer and possibly distorting the market in the distribution of electricity. The implications of moving to customer type classifications for tariff structures would be increased complexity for customers and suppliers, the need to make assumptions in tariff allocation, and DNOs reaching the physical constraints of the settlements arrangements.

We accept that tariff cost reflectivity could be improved. However, we do not believe that customer type tariffs are the best way to achieve this. We believe that the best way for the industry to improve cost reflectivity is through improved tariff structures, using the following approaches:

- Differentiating the tariffs applied to profile classes 5–8, as utilised by EDF Energy Networks;
- Application of seasonal time of day tariffs, as utilised by EDF Energy Networks for HH metered connections;
- Application of fixed charges for costs that are not consumption dependent, as utilised by EDF Energy Networks;
- Increasing the number of voltage location tariffs, as practised by EDF Energy Networks in the EPN area (LV Substation, LV Network);
- Increasing the incidence of HH metering installations through appropriate incentives; and
- Increasing the number of time bands used in future metering, to encourage charges to reflect time of use.

The implementation of some or all of these tariff features would improve cost reflectivity for all customers, including IDNOs.

Consequently, based on the points above, EDF Energy Networks believes that the proposals being consulted upon do not better meet the relevant objectives and, on balance, should therefore be vetoed.

If you have any questions regarding this letter, please do not hesitate to contact me on 01293 657848.

Yours sincerely

Colin Nicholl
Regulation and Strategy Manager