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Dear Martin,

Consultation on use of system charges for new electricity distribution licensees: WPD and SP Proposals

SSE welcomes the opportunity to comment on the Western Power Distribution (WPD) and Scottish Power (SP) proposals to modify their use of system charging methodologies in respect of charges levied on independent distribution network operators (IDNOs) and out of area DNOs connecting to their system.

The emergence of IDNOs and out of area DNOs connecting to a host DNO system has been a significant change for the industry. The decision by DNOs to apply existing commercial yardsticks for this new customer group was, in our view, both proportionate and practical given the limited knowledge of the new networks being connected at the time and their likely development across the system.

However, as these networks have developed it is clear that, at HV and LV, they are overwhelmingly made up of domestic sites. In general, therefore, we are supportive of the proposal to introduce dedicated yardsticks for IDNO connections at HV and LV. We would not be supportive of any changes to charging at EHV where the embedded networks feed commercial customers. We are also not supportive of developing specific tariffs for other customer groups as, in our view, the existing yardsticks continue to provide reasonable and proportionate cost reflective signals.

In our view, the WPD proposal to apply specific IDNO yardsticks to 'predominately' domestic connections and maintain commercial yardsticks for networks that are 'predominately' non-domestic at both HV and LV could be considered an arbitrary split. Furthermore, each network would continually have to be assessed against the 50% threshold, with the potential for significant changes to tariffs once it is reached. Such a tariff structure is likely to render the host DNO open to continued challenge and dispute as to what constitutes 'predominately' domestic.

The solution proposed by SP, introducing three new yardsticks derived from the profile used for domestic customers appears to be a simpler, more cost reflective and transparent solution for IDNO and out of area DNO HV and LV networks.

We agree that the avoided cost test is important and, as noted by SP, should include additional costs that the host DNO has to bear.

With regard to tariff design and capacity charging, on balance we believe that SP's proposal to retain capacity charges for HV and large (above 100KVA) LV connections is appropriate. In our view, such charges provide the price signals necessary to ensure that the network is developed in an efficient and economic manner. This proposal maintains consistency with existing DNO yardsticks.

As domestic customers are not charged for reactive power in terms of normal DNO tariffs it would be inconsistent to seek to impose such a charge on HV and LV 'domestic' IDNO connections. However, a DNO may wish to review whether domestic customers should pay for reactive power at some point in the future, and this would include any HV and LV IDNO connections.

Whilst metering does not feature in WPD or SP's proposed changes to their use of system charging methodology, it is an issue on which IDNOs and out of area DNOs have expressed concern. In our view, some form of measurement of energy flowing at the boundary is essential to enable both the DNO and IDNO to properly develop and manage their networks. However, the type of measurement should be proportionate to the connection and the proposal to move towards maximum demand rather than half-hourly metering appears to have merit. Any move towards use of aggregated profile data for small LV connections will require changes to settlement data flows and possibly to the settlement systems themselves. As such, they may not be the most cost-effective solution for either the DNO or the IDNO.

In summary, as industry's knowledge of the make up and extent of IDNO networks has increased over time, it is appropriate for DNOs to review the current charging methodology in respect of this new customer group. We believe that geographic average yardsticks are more appropriate and proportionate than locationally specific charges for HV and LV connected IDNOs or out of area DNOs. We do not believe this is the case for EHV connected networks. As such both WPD and SP's proposals have merit and are likely to provide a more cost reflective solution than the current methodology. One concern we have highlighted is with regard to WPD's definition of a 'predominately' domestic connection which may be prone to challenge and dispute.

Yours sincerely,

Malcolm J Burns
Regulation Manager