

Your ref:

Our ref: ENERG/E/MC04

Mr Martin Crouch
Director
Distribution
The Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

28th September 2007

Dear Martin,

Consultation on Use of System Charges to New Electricity Distribution Licensees: Second WPD Proposal.

Thank you for your request dated 14th September, inviting further comments on the updated proposals received from Western Power Distribution (WPD) to modify their UoS charging methodologies in respect to the charges levied towards IDNO's.

As you are aware, we replied at length on the inadequacy of the initial proposals and asked OFGEM to challenge these charging practices as a matter of urgency in the hope of creating a fairer and level market for IDNO's to compete effectively. It is with little surprise that we find the latest proposals not only reinforce what can only be described as "Margin Squeeze", but in some scenarios strengthen the position of Western Power by increasing upstream costs to the IDNO.

This proposal can only be described as a half hearted re-hash of the previous submission and shows scant regard to the seriousness of the situation which IDNO's now face. This is embodied by the remark in section 2.3 where we are reminded that Western Power's license obligations do not include an obligation to ensure that there are suitable margins for IDNO's to operate. To include this in a consultation, clearly demonstrates the disdain in which IDNO's are held.

Turning specifically to the revised proposal, the table overleaf compares WPD's existing charges, the vetoed proposal and the revised proposal across a 45 home LV development with gas central heating using the same assumptions as the original proposal. The revised proposal uses a descending scale of charges relative to the point of connection on the network. The table represents the best case scenario under WPD's proposal and clearly shows that the total Upstream UoS charge has not materially changed from the original proposal.

	Existing Charges		Initial Proposal (Vetoed)		2 nd Proposal (best case)	
	Capacity	UoS	Capacity	UoS	Capacity	UoS
WPD	£1,091	£1,767	NA	£3,098	N/A	£3,053

SW				75% increase		72% increase
WPD Wales	£1,275	£1,763	NA	£3,234 83% increase	N/A	£3,106 76% increase

In the examples provided by WPD, an IDNO network of 50 houses connected to the end of a low voltage network would result in a staggering 93% of the available income being passed back to WPD in the form of upstream UOS. If the development is close to the start of the network WPD will retain 82% of the available income.

The situation on the HV example shows a similar picture where the IDNO gross margin per plot across South West and South Wales were £41 and £43 respectively in the first proposal. Under the revised proposal these would fall to £38 and £39 respectively.

It is incredulous to believe that when WPD's proposal was challenged and subsequently vetoed on the grounds that Ofgem stated; *"...we are concerned that WPD's proposals in respect of IDNO charging would in some cases result in charges which do not reflect WPD's costs and could distort competition in electricity distribution..."* we find ourselves with a revised proposal demonstrating yet another methodology but the same bottom line.

The revised proposal fails to address the fundamental question; why has upstream UoS charges increased by such a significant margin. Where is the justification?

Competition cannot be established through the emergence of IDNO's until the restrictive charging policies demonstrated by this proposal and others are addressed. WPD have come up with a "make it fit" proposal which demonstrates neither transparency nor cost reflectivity in its methodology. Common sense dictates that in a market where up to 93% of any potential revenues are recovered by the up stream provider, intervention is required.

In summary, Energetics Electricity firmly believes that this proposal should also be vetoed as it has not addressed any of the issues which resulted in the previous rejection.

Yours sincerely

Bill McClymont
Chief Executive Officer