



Your Ref

Our Ref UU/2008/002.1

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Dear Martin

Consultation on United Utilities (UU) modification proposal UU/2008/002.1 to introduce payments for the adoption of connection assets

CE Electric UK Funding Company (CE) is the UK parent company of Northern Electric Distribution Ltd (NEDL) and Yorkshire Electricity Distribution plc (YEDL).

We welcome the opportunity to respond to the above consultation, enabling as it does all industry participants to contribute to the wider debate regarding the issues surrounding the competitive market for the construction and adoption of connection assets. The following paragraphs summarise our response to the key areas: we have provided more detailed answers where appropriate to the specific questions asked by Ofgem in appendix 1.

Since April 2005 NEDL and YEDL have not provided any form of tariff-funded support for dedicated connections assets, and neither have we sought to introduce any form of payment for adoption of new connection assets.

It is clear that the Electricity Act 1989 and the standard conditions of the licence are not prescriptive as to whether a licensee should recover its costs of connection in the form of a connection charge or in the form of use of system (UoS) charges, provided that the licensee meets the requirement for any such charges to be cost reflective. It would seem that there is a market appetite for some type of tariff-funded support for connections and if this is to be a feature of the development of the market there is no reason in principle why distribution licensees should not be permitted to offer this facility subject to their operating in accordance with the requirements of their licences, the Electricity Act and the Competition Act.

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We hope this consultation will enable Ofgem to make its position clear on some of these matters, if you have any queries relating to our response, please do not hesitate to contact me on the above number.

Yours sincerely

Harvey Jones

Harvey Jones
Network Sales

Appendix 1

General views invited

Does UU's modification proposal better achieve the relevant objectives?

Specifically:

Q. 1 *Is the proposal more cost reflective than the current methodology?*

UU's proposed change is driven in part by recognition of the requirement for cost reflectivity i.e. the avoidance of double charging and therefore would appear to better meet the relevant objective 4(c).

It is clear that the Electricity Act 1989 and the standard conditions of the licence are not prescriptive as to whether a licensee should recover its costs of connection in the form of a connection charge or in the form of use of system (UoS) charges provided that the licensee meets the requirement for any such charges to be cost reflective.

Either method is capable of meeting the requirements of the licence.

Q. 2 *Does UU's proposal restrict, distort or prevent competition in distribution?*

The proposed change takes into account developments in the licensee's business in particular competition in the adoption of connection assets within its distribution services area and to this end the proposal may further stimulate competition rather than restrict, distort or prevent it.

Q.3 *Does the methodology proposed by UU provide sufficient clarity and transparency about the calculation and application of adoption payments?*

The UU proposal appears to provide sufficient clarity and transparency. It is not clear how specifically the UU charging model is made more cost reflective (and hence better meets the licence objectives) by the application of adoption payments, however we are sure that Ofgem in discharging their role will satisfy themselves that this is the case.

Extent of competition

Views invited

Q. 4 *Do adoption payments play a role in the development of a competitive market?*

Adoption payments need to be seen in the context of the larger charging framework – if these payments better meet the defined objectives then they are as legitimate as any other form of charge adjustment e.g. the apportionment rule.

Q.5 *Is competition now effective?*

ICPs and IDNOs in the CE companies' distribution services areas are winning connections business on a regular basis. UU have indicated that they believe competition in connection is effective in their area and we have no basis to disbelieve this.

Q.6 *Are adoption payments now appropriate in order to reflect developments in the licensee's business?*

There is no reason in principle why distribution licensees should not be permitted to offer this facility provided that they meet the requirements of their licences, the Electricity Act and the Competition

Act. Subject to meeting these requirements, it should be a matter for each distribution licensee (i.e. a commercial decision as to whether it wishes to pay for new assets or not and to what level).

Effect of average assumptions

Views invited:

Q.7 *Are the assumptions used by UU reasonably representative of the majority of connections?*

There are several assumptions in the UU proposal, including ones on power factor (page 5); ADMD (page 6) and speculative developments (page 11). On face value these assumptions appear to be reasonable.

Q.8 *What is the impact of the proposed methodology change on customers and competitors whose connections are not closely reflected in the modelled assumptions?*

We are unable to answer this without understanding and running the UU model for different scenarios.

Q.9 *Does the combination of adoption payments and UoS boundary charges have anti-competitive effects?*

We do not see why the combination should have such effects, provided that charges are cost reflective

Potential for discrimination and double-counting

Views invited:

Q.10 *Is there currently an issue of potential discrimination in UU's charging methodologies?*

Any change in methodology has the potential to introduce a level of discrimination; however without having a clearer understanding of the UU charging model we do not feel we can comment on the detail of UU's proposals.

Q.11 *Is there currently an issue of potential double-counting in UU's charging methodologies?*

If UU's DRM model recovers some connection costs (as UU indicates that it does) there is obviously a potential for double counting, where connection charges are also recovered in full. However, the UU proposal seems to be aimed at removing this anomaly.

Q.12 *Is the proposed modification the most appropriate way forward?*

UU have obviously decided that it is the most appropriate way forward for them and given that there is a market appetite for some type of tariff-funded support we see no reason in principle why distribution licensees should not be permitted to offer this facility if they wish to do so. However we would point out that this will in all likelihood reduce the effectiveness of the locational charging signal in the connection charge because it will put more of the cost of new dedicated connection assets into the RAV that is funded by all suppliers that use the system and, therefore, ultimately by the generality of customers.

Q.13 *Is there any alternative approach to be considered, that would better meet the relevant objectives?*

There are no doubt other ways to resolve this issue, but it is for a licensee to bring forward any proposal that it thinks may “better meet” the relevant objectives and each one should then be considered on its own merits.

Q.14 *Does UU's proposal result in a shift in the connection boundary and, if so, is this appropriate?*

It seems to change the connection boundary in that dedicated assets are being funded from the RAV, but if this is correct then it may also be the case that independent distribution network operators have already moved the boundary if they are offering asset adoption payments to subsidise connection costs. Preserving the connections boundary for dedicated assets may be considered less important than preserving the connection boundary in respect of reinforcement under the apportionment rule, for example in order to maintain that customers seeking connections do not fully fund deep reinforcement.

Exclusions from the methodology

Views invited:

Q.15 *Are the exclusions appropriate and have UU sufficiently justified these?*

The exclusions appear appropriate but these are for UU to establish in relation to the market activity they witness.