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Date

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Dear Martin

**Consultation on United Utilities modification proposal UU/208/002.1: proposal to introduce payments for the adoption of connection assets**

With reference to the above, having considered the arguments both for and against adoption payment we believe that the Authority should veto United Utilities proposals.

Our detailed views and comments on the issues raised are attached.

We are concerned that other Distribution Network Operators appear to be offering adoption payments when no clear, transparent methods for calculating them have been published by these Operators or approved by the Authority.

Yours sincerely

Nigel Turvey  
Design & Development Manager



## WPD views on the issues raised in the Ofgem consultation

- Does UU's modification proposal better achieve the relevant objectives? Specifically:
  - Is the proposal more cost reflective than the current methodology?
  - Does UU's proposal restrict, distort or prevent competition in distribution?
  - Does the methodology proposed by UU provide sufficient clarity and transparency about the calculation and application of adoption payments?

It appears to be more cost reflective than the current methodology due to the current DRM model being used by UU including connection assets. It would be better to exclude these connection assets from the DRM rather than introduce asset adoption payments. As the impact of the balance between connection and use of system income is on different customer groups (connection charges mainly impacting developers and use of system charges impacting end users) there will be distortions in competition if some Distributors have asset adoption payments and others do not.

The calculation and application appears adequately described.

- Have we correctly captured the main issues raised by UU's modification proposal, and more generally by adoption payments in Annex 1?

The main area of concern not covered in Annex 1 is the suggestion in UU's proposal that some Distribution Network Operators are offering asset adoption payments at present. We are not aware of any published methods or payments by such operators and hence they may be being offered on a discriminatory basis. Ofgem should ensure that all operators are offering terms for connection on a non-discriminatory basis via a published methodology in accordance with their licence.

### Extent of competition

- Do adoption payments play a role in the development of a competitive market? Is competition now effective? Are adoption payments now appropriate in order to reflect developments in the licensee's business?

We do not believe that adoption payments are appropriate. We believe that they reduce the transparency of the connection charges to end customers and reduce the locational signal. As it is impractical to introduce a locational signal into low voltage use of system tariffs we believe that this is the wrong direction to take.

### Effect of average assumptions

- Are the assumptions used by UU reasonably representative of the majority of connections?
- What is the impact of the proposed methodology change on customers and competitors whose connections are not closely reflected in the modelled assumptions?
- Does the combination of adoption payments and UoS boundary charges have anti competitive effects?

Whilst an individual connection may only use overhead or underground assets and have a different cost, the main effect appears to be a shallower connection charge. If the main benefit in competition in connections is the potential for alternative connection providers to provide lower connection costs, then a shallower connection boundary is likely to reduce the benefit of competition in connections.

### Potential for discrimination and double-counting

- Is there currently an issue of potential discrimination in UU's charging methodologies?
- Is there currently an issue of potential double counting in UU's charging methodology?
- Is the proposed methodology the most appropriate way forward?
- Is there any alternative approach to be considered, that would better meet the relevant objectives?
- Does UU's proposal result in a shift in the connection boundary and, if so, is this appropriate?

Pre April 2005 connections benefited from Tariff Support Allowances (derived in a similar way to the proposed asset adoption payments) but also paid a capitalised OR&M uplift to connection charges. When both were removed in April 2005, the net effect on distributors overall income was small. This proposal is only proposing to reintroduce something similar to TSA and hence if there is potential discrimination between customers connected pre April 2005 and post April 2005 it will not be corrected by this proposal.

If, as is suggested, by UU's proposal, connection assets are included within their DRM model then there is the potential for double counting, although as the model will be scaled to allowed revenue this will result in a redistribution of which customer groups allowed revenue is collected from rather than extra revenue. Hence the issue is more likely to be cross subsidy between classes of customers rather than double counting.

As indicated in Ofgem's consultation, there are other ways to adjust the DRM model to take account of the removal of TSA in April 2005 and we believe that removal of the connection assets from this model is more appropriate. UU appear to have al-

ready used this approach for unmetered supplies (page 11 of their proposal) and it is surprising that they did not adopt the same approach for other classes of customers when TSA were removed.

As UU will collect less connection charges as a result of their proposal it must be a shallower connection charge. We do not believe that shallower connection charges are appropriate.

#### Exclusions from the methodology

- Are the exclusions appropriate and have UU sufficiently justified these?

The exclusions appear appropriate; however there appears to be some discretion in their application, for example to speculative developments which could be other network operators.