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14 May 2008

Dear Rachel

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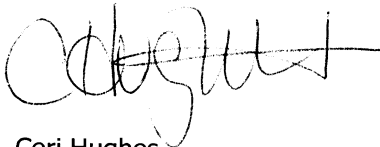
Delivering the electricity distribution structure of charges project, Ref 36/08

1. This is our response to the above consultation. It is not confidential and we are happy for this to be posted on the Ofgem website.
2. BGT fully supports the proposal by Ofgem to compel DNOs to finally deliver on this project by a stipulated deadline and to do so on the basis of a common methodology for charging across all DNOs. Ofgem's consultation document eloquently demonstrates that the current approach has failed.
3. DNOs have had ample opportunity to take charge of this agenda. Eight years on from when this project was initiated, and three years on from the first Ofgem deadline for its completion, the interests of other stakeholders in an efficient and transparent approach to distribution charging appear largely to have been ignored by DNOs. Claims that progress has been made by DNOs are not supported by the facts. Over this time we struggle to see how DNOs have as a group delivered anything substantial on charging either in terms of greater cost reflectivity or facilitation of competition in generation and supply (two of their key objectives in this area, as set out in the licence).
4. In the meantime, as we move into an era of higher priced energy and massive investment to support its delivery to customers, there is little sense that the DNO's are moving with the urgency required to redefine the way they charge, either to meet the government's objectives for carbon reduction or to meet suppliers' needs to better forecast their distribution charges so that they can provide the best value possible to their customers.
5. Against this background, some of the arguments advanced against the common methodology do not look serious. Had suppliers and customers seen more progress over the last eight years, they might be more inclined to be concerned about new methodologies "fossilising" or stifling innovation. But as things stand, the innovation that we need is for all stakeholders to have the opportunity to participate in a process that actually delivers a transparent methodology that applies to all electricity distribution charging.
6. There is no reason why any such methodology should not be sufficiently broad-based to encompass and allow for the differences of topography, network design, customer mix etc that do indeed exist across the country. Those DNOs that argue that is not the case need to explain how the benefits of having anything up to 14 different methodologies will offset the costs in terms of complexity and lack of transparency that having more methodologies otherwise involves.
7. We welcome Ofgem's statement that it will consider a referral to the Competition Commission if it cannot reach agreement with DNOs. While this is an entirely appropriate

threat, a referral of this sort is a blunt instrument and so in addition Ofgem must take a leadership role in steering this project. We would suggest Ofgem appoints a project manager to set milestones for delivery along the way so that remedial action can be taken early if progress is not being made with sufficient speed. Otherwise the danger is that the work is not developed properly or subject to sufficiently thorough consultation, leaving Ofgem in the invidious position of either having to proceed on the basis of underlying work that may be inadequate, or delaying resolution of the issue by instigating a referral to the Competition Commission.

8. In the interest of avoiding unnecessary change for suppliers and customers to manage, we recommend that the new common methodology is effective as of 1 April 2010 so there is only one set of changes to charges and their structure associated with the new price control and the new charging methodology together.
9. We are concerned that no new governance arrangements are proposed to be included within the licence modification. Ofgem propose that once the methodology is implemented, individual amendments could be implemented by the respective DNOs, without regard to the interest of other industry stakeholders. We think further consideration should be given to extending industry governance (eg. DCuSA) to this process, so that the new methodology can evolve as appropriate over time.
10. We have responded to the specific questions raised in the consultation in the attached appendix. Should you wish to discuss the above further, please do not hesitate to contact me on 07789 570 445.

Yours sincerely



Ceri Hughes
Senior Regulatory Manager

Appendix – BGT response to specific questions raised in delivering the electricity distribution structure of charges project, Ref 36/08

Section 1, Introduction

Q1, Do you consider that it is necessary to place a licence obligation on DNOs to deliver use of system charging methodologies that meet the required principles and objectives by 1 October 2009?

Yes. The variation in the DNOs existing charging methodologies is a major concern, imposing unnecessary complexity on customers and their suppliers. DNOs have failed to deliver individual revised charging methodologies. This demonstrates that a licence obligation is necessary to deliver the required step change.

Our preference is to implement a common methodology in parallel with the new price control taking effect in April 2010. There is no benefit and only cost from imposing a new charging structure and new price control rates on suppliers and customers at separate times but less than a year apart. Every major change of this sort will involve a new challenge for us in forecasting the outcome for our customers. One change process will help mitigate the transitional costs of these necessary changes.

Section 2, High-level principles

Q2, Have we considered all the necessary high-level principles and objectives for the structure of charges project going forward?

Yes.

Q3, Has the structure of charges work to date highlighted any objectives set out here that are not appropriate for the project going forward?

No.

Section 3, Options for the structure of charges project

Q4, We welcome views on the two options presented in this chapter, including views on the timescales for the various options and how they relate to the forthcoming price control review.

We do not believe that option one will successfully deliver this project. We are struck by the total absence of any compelling substantive arguments in favour of option one. Separate methodologies impose clear costs on Ofgem, suppliers and customers. These stakeholders will all have to navigate up to 14 different methodologies, each with their own language, terminology and different ways of classifying essentially the same sorts of costs if Ofgem agrees to proceed with option one. To justify this cost, DNOs would need to explain what benefits these other stakeholders receive from this multiplicity of methodologies. We have not seen any arguments of this sort.

Arguments along the lines advanced by some that option two would ignore the progress made by some DNOs are rather irrelevant at this point. The fact is that DNOs *collectively* have not delivered over the past eight years on this project. Asking stakeholders to take into account that option one ensures that work on revised methodologies will not be held up by disagreement between DNOs amounts to asking them to accept being held to ransom. If this is such a critical point, customers should surely be seeing the benefit *now* of letting each DNO make progress in its own way. Sadly there is pitifully little progress to report of this sort.

The lesson of experience to date is clearly that success will only come with central drive and direction. If the methodologies are to be sufficiently open and transparent for all stakeholders, then it should go without saying that DNOs should be able to understand and relate to each other's own approaches in the first place. Charging formulas can be developed that are sufficiently broad to meet the characteristics of different DNOs. A single methodology can encompass DNOs recovering different costs in different ways to some extent but putting the methodology in a single wrapper as the outcome of a single industry process will have huge benefits for other stakeholders.

Q5, We welcome views on the approach for implementing the two options. In particular, we welcome views on whether integrating new licence requirements would be better achieved by amending PLC13 or by inserting a new licence condition into Section B of the Proposed Standard Licence Conditions.

We fully support the inclusion of the necessary licence changes to drive through delivery of this project. As stated earlier, we support the option two approach.

If the common methodology is intended to absorb independent DNOs, then Section B is the appropriate placeholder for the proposed licence amendments to facilitate introduction of a common methodology. In terms of its principles, these should be covered in Condition 13 of the licence.

Below are specific comments on the proposals outlined in Appendices 4 and 5:

Appendix 4 – Proposed principles for UoS charges

1. (b) i) – The use of “material terms” should be defined to include the following – operational and non operational rates, transmission exit charges and recovery of operation, repair and maintenance cost as well as network related system provision and the annuitised element thereof.

1. (c) – This paragraph refers to the charging model being a “forward looking incremental cost model”. We support this approach.

Appendix 5 – A common UoS charging methodology

Ofgem's approach suggests:

- that the DNOs develop the methodology themselves, potentially through a sub-group of the Distribution Charging Methodology Forum 'DCMF'. This forum is primarily a knowledge sharing forum and not obviously well suited for delivering this project. As stated earlier, it is essential that Ofgem directs this project to ensure delivery, through the use of a project manager, using a consultant if appropriate.
- that DNOs engage and consult with interested industry parties early during the key development stage and to ensure the detail of proposals are clear. We recommend engagement with stakeholders on an ongoing basis, through the project manager.
- DNOs would be required to consult with interested parties and the Authority on the impact proposed changes might have on the commercial framework for the next price control. Again, we support this but this should be co-ordinated via the project manager.
- we agree that proposals should be issued for consultation, with sufficient time being allowed for consideration.