

Your ref:

Our ref: ENERG/E/CHARGES/DNO/01

Ms Rachel Fletcher
Director Electricity Distribution
The Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

9th May 2008

Dear Rachel,

Delivering the electricity distribution structure of charges project

Thank you for your correspondence of 2nd April 2008 inviting comments on your proposals to instigate this project and also the methods by which a successful outcome could be achieved.

Currently, DNO methodologies are fundamentally disparate, to the extent that IDNOs cannot financially operate in certain areas of the country. A uniform approach to charging is a pre-requisite to any form of competition being established in these areas. We have commented through other consultation exercises the lack of transparency of DNO charging methodologies and it is the view of Energetics Electricity that this action is long overdue and we are encouraged that Ofgem have identified the shortcomings of the DNO's and has now set a deadline for the industry to complete this critical piece of work.

Turning to the specific questions raised in the consultation document:

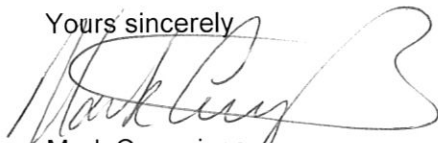
Question 1 Do you consider that it is necessary to place a licence obligation on DNO's to deliver the use of system charging methodologies that meet the required principles and objectives by 1 October 2009?

Response The very fact that deadlines have been set in the past, and subsequently missed by each and every one of the DNO's, leads to the conclusion that a licence obligation is the only way forward. The timescale of 1 October 2009 for completion is a reasonable period bearing in mind the DNO's have stated that work has been progressing. The only downside is that IDNO's like Energetics Electricity have suffered financial loss over recent years as a result of the current charging methodologies and we would encourage Ofgem to ensure more cost transparency across the DNO tariffs in order to justify any future charging structures.

- Question 2** Have Ofgem considered all the necessary high-level principles and objectives for the structure of charges project going forward?
- Response The formal wording of the relevant principles, set out in your appendix 4, is comprehensive enough to capture the variables of any charging model. The same relevant principles do not, however, touch on the need for DNO's to facilitate competition in supply and generation and not restrict competition in transmission or distribution. On the understanding that these fundamental principles will remain embodied in both the Standard Licence Condition 4(3) and the Competition Act 1998, then Ofgem have, in our view, considered all the necessary principles and objectives.
- Question 3** Has the structure of charges work to date highlighted any objectives set out here that are not appropriate for the project going forward?
- Response Considering the period of time to complete this project then the objectives set out in the consultation document are all appropriate.
- Question 4** Request for views on the two options presented, including views on the timescale for the various options and how they relate to the forthcoming price control review.
- Response Energetics Electricity strongly supports the view of Ofgem that option 2 would serve the industry best in terms of achieving some consistency in application. Managing the dynamics of this common forum will be extremely challenging and care must be taken to ensure that this is not construed as a further incentive by the DNO's to procrastinate over timely delivery.
- Question 5** Request for views on the approach for implementing the two options. In particular, Ofgem 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.
- Response Ofgem has previously identified that the IDNO's operate under a relative price control and, given that a new licence obligation under Section B serves the key purpose of requiring DNO's to deliver appropriate charging methodologies by 1 October 2009, then this would appear to be the best way forward.

Finally, may I thank you for the opportunity to comment on this proposal and we look forward to receiving your decision on the best way forward.

Yours sincerely



Mark Cummings
Director, Energetics Electricity