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Dear Colette

**Delivering the electricity distribution structure of charges project:
consultation**

energywatch welcomes the opportunity to respond to the issues raised in the consultation document. This response is non-confidential and we are happy for it to be published on the Ofgem website.

Consumers expect the delivery of safe, secure and reliable electricity supplies in an economic and efficient manner. They look to the distribution network operators (DNOs), through their licence obligations, and Ofgem to meet these expectations. The vast majority of demand consumers connected to the DNO networks are passive users, who have no control over where that connection takes place. Pure cost reflective charging of these consumers could penalise them as they have no choice but to take a supply where they are located. They would look to DNOs to develop and levy fair charges for ongoing use of the networks regardless of location.

DNOs must operate flexible and resilient networks that do encourage distributed generation with low carbon impacts to connect at the most appropriate points as this would provide consumers with the benefits of 'greener' energy and localised security of supply. This approach requires DNOs to take cognisance of their licence obligation to operate efficient, economic and coordinated networks which may not, in some cases, sit well with cost reflective charging.

There is a difficult balance that DNOs face in developing and charging for their networks. On one hand, they must plan for the long term and invest economically and efficiently, and charge accordingly, to provide increased use of the network by distributed generation. On the other hand, they must also develop a long-term charging structure which is reflective of the way that the bulk of users are connected which may create a deterrent to the connection of distributed generation. There is, therefore, a difficult compromise required between competing interests – should DUoS charges be more cost reflective to (positively) facilitate the connection of more distributed generation, or should charges be less cost reflective to reflect network realities which may deter more distributed generation from connecting?

We believe that the long-term structure of DUoS charges needs to be developed in an innovative and creative manner, taking into account a more flexible and 'active management' approach to network development itself. DNOs need to assess the potential demand for increased distributed generation on their networks through effective dialogue with those considering such connections. This includes understanding the motivation for connecting at a particular point which may be unrelated to costs of network reinforcement. An element of cost reflective charging may be appropriate which may well encourage distributed generation. However, for the bulk of demand consumers and their suppliers, there is little expectation that there will be the same imperative for such connections, and therefore for cost reflective charging.

Ofgem's proposed licence obligation

We agree with Ofgem that there needs to be a greater commitment by DNOs to developing a long-term structure for DUoS charges through charging methodologies which are broadly consistent, transparent and accessible to users. There is a balance to be struck between the various principles upon which the structure of long-term charges ought to be based. Users need to understand how DNOs have determined their charging methodologies and why there may be differences in approach where these are evident. The use of a licence obligation may provide additional impetus and a defined timescale in which DNOs develop and finalise an appropriate solution. Developing a solution prior to implementation of the next electricity distribution price control in April 2010 would reduce uncertainty and increase consistency with price control outcomes.

Networks in all DNO areas ought to have common characteristics that allow the development of a common charging methodology which is transparent, stable and predictable for users. However, on an exceptional basis and only where specific, identifiable differences exist on particular networks which can be explained to users and justify a different approach may DNOs be allowed to develop any separate elements of DUoS charging. We believe that the existence of a common charging methodology will help streamline the process for changing it in response to changing circumstances. This will enhance the flexible approach that DNOs must adopt towards network development and charge setting in future.

Going forward, we will continue to keep these issues under review as and when they are raised, always considering the possible impact on consumers.

We would appreciate being kept informed of the progress of the consultation and any related issues to enable us to comment as the need arises.

If you do wish to discuss our response further please do not hesitate to contact me on 0191 2212072.

Yours sincerely

Carole Pitkeathley
Head of Regulatory Affairs