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Re: Delivering the electricity distribution structure of charges project

Dear Colette

Thank you for this opportunity to comment on your recent consultation, "Delivering the electricity distribution structure of charges project". As an IDNO ESP Electricity ('ESPE') shares your considerable concern at the DNOs' failure to deliver revised charging methodologies which reflect the current market and obligations to facilitate competition. We do not intend to respond exhaustively to the consultation document at this stage. Nevertheless, the brief answers to the questions posed, and subsequent general commentary provided, should leave all parties in no doubt that ESPE fully supports the principles Ofgem has outlined in the document. This response is not considered to be confidential.

Responses

Question 1: Yes. ESPE certainly considers 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 October 2009.

Question 2: Yes. ESPE believes Ofgem have considered the necessary high level principles and objectives for this project.

Question 3: ESPE is not sufficiently familiar with the work to date to provide comment.

Question 4: ESPE is convinced that option two should be pursued. As you correctly point out in the consultation document, option one will require cross-DNO discussion and implementation of commonality. In other words, the work required for both options is in no way mutually exclusive. Since option one goes a very long way towards achieving option two, ESPE believes that the amount of additional resource required to achieve option two would be insignificant in comparison to the benefits to the industry as a whole.

Question 5: ESPE has no particular preference at this stage, as long as the end result is achieved within the timescales proposed.

Further commentary

ESP Electricity has been in the market since October 2001. We continue to be very disappointed that in seven years no separate tariff structure has been forthcoming to reflect the role that IDNOs can play in creating competition in electricity distribution. The

facts speak for themselves: there are many IDNO networks with hundreds of domestic properties where the IDNO's income stream is *negative*. ESPE not only believes that the current charging structures do not promote competition; in some cases they actually inhibit it. Ofgem are right to be extremely concerned at this situation.

If it is Ofgem's intention that IDNOs continue to mirror DNO charges for the relevant operating area, the long-term stability of these charges is absolutely crucial. The DNOs' current ability to alter or restructure charges at short notice is unacceptable and prevents IDNOs from making efficient and informed capital expenditure. In effect, the potential for our income to halve or indeed double is entirely out of our control under the current regime. Again, *we cannot invest in capital on this basis*; a clear hindrance to competition in the electricity connections.

Despite the brevity of the responses provided above, ESPE would welcome the opportunity to engage with Ofgem in more depth as the project progresses. Whilst we agree that it should not be necessary for IDNOs to develop their own charging methodologies, it is certainly our intention to provide input to the project and believe that this viewpoint will prove valuable if Ofgem's intervention is to have the desired effect on competition. DNO charging methodologies are the key factor determining whether or not IDNOs can compete in the market for electricity connections, and so we are justifiably interested in remaining involved for the remainder of this project.

With regard to the concerns raised by various parties to option two, we believe none is insurmountable, and indeed consider some invalid. ESPE would mirror the responses you have already provided to these concerns. Common methodologies work well in the gas industry and we have seen no evidence that competition has been stifled. DNOs all operate the same business within the same industry. So far, 'innovation' in charging has in fact in our opinion had the effect of stifling competition. Efficiency is and should remain the most important driver for DNOs.

ESP Electricity welcomes Ofgem's intention to pursue this matter to conclusion and would like impress upon them the urgency with which the numerous related issues should be addressed. Competition in electricity connections does not and cannot currently exist and implementation of the proposed option two is vital to rectify this.

May I again thank you for considering this response to your consultation. ESP Electricity would be pleased to provide you with further information in relation to this matter at any time.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D Speake', written in a cursive style.

David Speake

ESP Electricity Ltd.