

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

Avonbank
Feeder Road
Bristol
BS2 0TB

Telephone 0117 9332175
Fax 0117 9332428
Email asleightholm@westernpower.co.uk

Our ref

Your ref

Date

8 May 2008

Dear Rachel,

Ofgem Consultation on delivering the electricity distribution structure of charges project

I am writing on behalf of "WPD", Western Power Distribution (South West) and Western Power Distribution (South Wales) plc in response to the Ofgem Consultation dated 2 April 2008.

Our response to the questions raised in the above are as follows:

Question 1: 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?

We do not agree that a further licence obligation should be placed on WPD as we have demonstrated by our actions, over the last three years, our ability to respond to changing needs. We have delivered the only approved revised methodology at EHV, the only approved methodology that takes account of the characteristics of IDNO networks and proposals, currently being consulted on with users, for HV/LV generator charges that take account of the benefits that they can bring to distribution networks.

We have invested significant resources in ensuring delivery of our methodology and the supporting business systems. Further changes are likely to result in many of these costs being wasted. We believe that if this proposal goes forward, it is appropriate to see regulatory recovery of these costs and financial recognition of the lead that WPD has taken in these areas.

Whilst it may be appropriate to impose a licence obligation on those distributors that have not delivered revised methodologies, we believe that it is disproportionate and unreasonable to impose the same obligations onto WPD and believe that if a licence



condition has to be placed on all DNOs then the proposed licence condition should be rewritten to reflect the different positions of the DNOs (draft attached). Our proposal would encourage DNOs to complete any work near to delivery and also addresses the concern over maintaining a common methodology going forward.

There was an early attempt to work together as DNOs to deliver a revised methodology, however we moved ahead alone when it became clear that others were unable to progress quickly. Subsequent progress does not indicate that other DNOs are ready to make rapid joint progress.

We believe that our actions to date demonstrate that WPD will do all that we can to deliver any further necessary revisions to our methodology without a licence obligation.

Question 2: Have we considered all the necessary high level principles and objectives for the structure of charges project going forward?

We believe that the high level principles and objectives outlined are comprehensive and have been well established for some time.

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?

We do not believe that there are any objectives set out that are not appropriate.

Question 4: We welcome views on the two options presented in this chapter. In particular, we welcome views on the timescales for the various options and how they relate to the forthcoming price control review.

Whilst having significant difficulties in delivery within the timescales envisaged in the paper, we agree that there are advantages in having a common charging methodology across all DNOs. We note, however, that there will be no requirement for, or governance to facilitate, a common methodology to remain common after October 2009. In these circumstances, we are unclear what, if any benefits there are to users of WPDs networks of a common methodology requirement over the existing position of a method that complies with the principles in the paper.

Whilst understanding Ofgem's drive for a short timetable to implement a common methodology, our experience of actually delivering a revised methodology including the use of consultants and consultation with users was that we struggled to deliver this in a 12 month timeframe. Adding in the need to reconcile the differences between the 7 DNO groups indicates that a 6 month delivery is an unrealistic requirement. Our experience, subsequently confirmed by comments from other DNOs is that once a decision on the methodology to be used has been taken, it takes at least three months to cleanse data and produce indicative prices. This indicates that Ofgem are allowing three months for the full development of a common methodology including consultation with users. As consultation requires a 6 week period for users to respond, this leaves around a month for the majority of the development work prior to consultation with users.

In addition, within WPD many of the people involved with delivery of structure of charges work are also involved with the preparation of DPCR5 information and the detailed business plan due with Ofgem in January 2009. This was a major driver in delivering our structure of charges work early to avoid this clash of resources and an additional reason that we do not believe that further licence obligations should be placed on WPD.

Question 5: We welcome views on the approach for implementing the two options. In particular, we welcome views on whether integrating the 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.

Should an amendment be needed, it should be part of PLC13.

We would welcome the opportunity to be part of the proposed working group to discuss and develop the drafting of the licence obligations.

I trust that the above is helpful but should you wish to discuss any aspect of the above, please do not hesitate to contact Nigel Turvey at nturvey@westernpower.co.uk or on 0117 933 2435.

Yours sincerely



ALISON SLEIGHTHOLM
Regulatory & Government Affairs Manager

WPD proposed licence drafting

Common Charging Methodology

1. [In addition to the requirements in PLC13], the licensee shall, in conjunction with all other distribution services providers, prepare a revised charging methodology ("Common Charging Methodology (CCM)") that delivers use of system charges which the Authority has approved on the basis that this achieves the Relevant Objectives and Relevant Principles set out in paragraphs x and x in relation to demand and generator use of system charges across all voltage levels.

2. The licensee must give effect to the revised charging methodology;

(a) by 1 October 2009 (or such later date as the Authority may direct); or

(b) if as at 1 October 2008, the licensee had in force a revised use of system charging methodology that delivers use of system charges which the Authority has approved on the basis that this achieves the Relevant Objectives and Relevant Principles set out in paragraphs 2 and 3 in relation to demand and generator use of system charges across all voltage levels, by 1 April 2012.

Amendment of the CCM

3. The CCM as approved by the Authority in accordance with paragraph 1 may be amended at any time thereafter in accordance with such amendment procedures (including procedures for amending those amendment procedures themselves) as may be specified and are in conformity with the principles set out in paragraph 4.

4. Those principles are that:

- (a) proposals for the amendment of the CCM may be made by any relevant electricity distributor, by any other party as may be specified by the Authority;
- (b) the amendment procedures for dealing with any such proposal shall comply with the requirements of paragraph 5;
- (c) the making and implementation of any amendment of the CCM shall comply with the provisions of paragraph 6; and
- (d) those parts of the CCM specified pursuant to paragraph 6 shall not be amended without the prior approval of the Authority, which shall be sought in accordance with appropriate procedures set out in the CCM.

5. The CCM shall provide procedures for the making of amendments which shall secure:

- (a) that every proposed amendment is brought to the attention of all parties specified in or pursuant to paragraph 4(a);
- (b) that any and all representations made in respect of a proposed amendment shall be properly considered by the relevant decision-maker(s);
- (c) that the question of whether any proposed amendment better facilitates the achievement of the Applicable CCM Objectives is properly evaluated;
- (d) that an amendment report is prepared in such manner and having all such contents as may be specified, including (i) a proposed implementation date such as to enable any proposed amendment to take effect as soon as practicable after the decision to implement it is reached, taking into account the complexity, importance and urgency of that amendment, and (ii) a summary of and copies of all submissions made in respect of the proposed amendment;

(e) that the proposed implementation date may be altered with the consent of or as directed by the Authority; and

(f) that parties to the CCM may, having considered the amendment report prepared in accordance with sub-paragraph (d) above and whether that amendment would, as compared with the existing provisions of the CCM, better facilitate the achievement of the Applicable CCM Objectives, vote for:

(i) in the case of a proposed amendment to a part of the CCM not specified pursuant to paragraph 8(g) above, the implementation or rejection of that amendment, or

(ii) in the case of a proposed amendment to a part of the CCM specified pursuant to paragraph 8(g) above, a recommendation to the Authority to approve or reject that amendment,

and that such votes shall be compiled so that the Panel may take such steps as are necessary to facilitate the implementation of any proposed amendment or (as the case may be) to put forward a recommendation to the Authority.

6 No amendment of the CCM may be made unless:

(a) the parties to the CCM have voted, pursuant to paragraph 5(i), in favour of the amendment described in the relevant amendment report; or

(b) the Authority, having had regard to the Applicable CCM Objectives, directs the licensee, in conjunction with every other relevant electricity distributor, to amend the CCM in such manner as is communicated in that direction following the provision of a recommendation to the Authority by the parties to the DCUSA pursuant to paragraph 5(f)(ii).

Governance and Administration

7. The common charging methodology (CCM) shall also comprise:

(a) for appointment or election as may be specified, a panel (the "CCM Panel") which is to be responsible, by way of such proceedings as may be specified, for the governance and administration of the common charging methodology, and whose members are to be required as a condition of appointment or election to act independently and not as delegates;

(b) arrangements for the establishment and funding of a secretariat able to service the CCM Panel, to such extent and in respect of such matters as may be specified;

(c) procedures for the amendment, in accordance with 5, of such provisions of the CCM as are specified to be capable of being amended without the prior approval of the Authority;

(d) provisions by virtue of which such parts of the CCM as may be specified shall not be capable of being amended without the prior approval of the Authority, and procedures for seeking such approval; and

(e) such other matters as may be appropriate to be included in or provided for by the CCM, having regard to the requirement of paragraph ?.