

Rachel Fletcher
Director, Distribution
Ofgem

24 July 2008

Consultation and impact assessment on Scottish Power's (SP) proposed modifications to their use of system charging methodology - Ofgem Ref: 86/08

Dear Rachel,

I am responding on behalf of Central Networks to the above consultation document. In doing this I am also conscious of your subsequent decision letter concerning a common charging methodology.

As described in SP's submission, Central Networks is a member of G3 which developed a common methodology for setting UoS charges. It is the G3 methodology that is proposed by SP. The G3's overall aim has been to meet the objectives set out by Ofgem and to meet our licence conditions. Much of the work, particularly on the tariff structure, follows that developed by the Structure of Charges Working Group supported by all 14 DNOs. In formulating the methodology it was considered essential that it could be implemented by the G3 companies with different computer systems in different stages of development and yet provide a platform for further development individually or collectively as appropriate. In this context we believe the G3 common methodology would be a very strong candidate for use by other DNO's as the basis of a future common charging methodology.

As part of the development process leading to the G3 FCP methodology a number of published methods were considered (e.g. WPD, EDF, ENW, Bath University analysis). Some of these had, and we believe still have, flaws which make them unacceptable while others were considered to be too complex both in development and in terms of validation. We have also considered issues relating to the current price control allowed revenues for generation and demand.

The consultation includes the following statement:

"Our initial assessment is that this proposal represents a significant step forward in SP's charging arrangements"

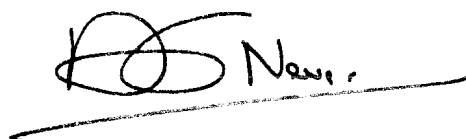
It goes on to highlight a number of benefits of the proposal, as well as some initial concerns.

We share Ofgem's view that SP's proposal represents a significant step forward. It is our view, supported by advice from specialist consultants, that introduction of this methodology would better meet the relevant objectives set out in SP's licence by:

- using an approach that is both forward looking and incremental;
- providing different locational price signals to EHV demand and generation customers (and prospective customers), in 128 network groups;
- using granular data on growth rates for network groups, taken from published sources;
- recognising and reflecting both the costs and benefits afforded by demand and generation customers in these different groups;
- using AC load flow analysis and including both thermal capacity and fault level considerations;
- tying differential price signals firmly to the recovery of anticipated network reinforcement costs, within an appropriate time horizon;
- assessing generator prompted reinforcement using test size generators and taking account of national targets for DG, using a probabilistic approach;
- using a common tariff model to pull together demand and generation charges at all voltage levels;
- taking reinforcement cost information for the EHV network as an input to the tariff model for HV and LV customers;
- taking other cost information from appropriate sources in an auditable way;
- using allocation based on appropriate cost drivers, rather than simple scaling, to recover allowed income, as far as possible;
- minimising distortion of price signals by finally scaling tariffs using a fixed adder for each different voltage level - reflecting each voltage level's share of the, largely historic, costs not allocated within the tariff model; and
- being relatively easy to understand and having low implementation costs.

We firmly believe the G3 methodology has all the attributes sought of it, and represents a major improvement over current methods. We do not believe there is any better methodology, either currently in use, or in preparation. In common with all other methodologies there are a number of potential concerns, some cited by Ofgem. We do not regard any of these as deflecting from fulfilling the overall objectives. Neither do they provide a basis for the Authority to apply its veto, which would result in the loss or deferment of the very substantial benefits offered by SP/G3's proposed methodology.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Andrew Neves', with a long horizontal line extending from the end of the signature.

Andrew Neves
Tariff and Income Manager