UTILITY CONSULTANCY & ENGINEERING LIMITED

Colette Schrier
Distribution Policy
Ofgem

29 July 2008

Sent via email to: distributionpolicy@ofgem.gov.uk

Dear Ms Schrier

Consultation and impact assessment on Scottish Power's (SP) proposed modifications to their use of system charging methodology: longer term methodology for EHV and revised approach to HV/LV demand and generation charging

Thank you for inviting comments on the above Consultation.

We see the changes proposed in this consultation as significant and a major shift away from current use of system charging methodology. We cannot see how they improve on the current charging arrangements which too can meet the five objectives of cost reflectivity, transparency, predictability, simplicity and the facilitation of competition.

We have a number of concerns about the proposed approach and its potential impact on charges and the effect it will have on customer bills. These are as follows:

1. **Disturbance to bills**

   The proposal will result in significant increases in use of system charges for all customers except for the vast majority taking supply under non half-hourly HV and half-hourly tariffs. The increases range between 9% and 206%. We would anticipate that such increases would not be palatable by customers against the backdrop of current and expected continuation of high energy costs.

2. **Connection charging arrangements are not taken into account**

   There is no mention of how connection charging methodology is taken into account in the proposals. This is important since the proposals may lead to recover network costs a second time in use of system charges.

   An example of this is where an EHV customer requires a new or enhanced connection. Under present arrangements, the full cost of all necessary works (at the 33kV and 132kV levels) is, subject to any apportionments, wholly funded by the customer by way of an up-front connection charge. In these circumstances it would be inappropriate for the inclusion of such costs within the methodology.

   New and enhanced HV and LV connections will also need similar treatment.

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3. **Moving away from long run marginal costs**

   The proposal moves away from the convention of long run marginal costing (LRMC) approach to one significantly based on identifiable or estimated costs over the short term. This may lead to price volatility in future years and rather than more predictable cost messages over time.

4. **Scaling**

   The significant amount of upward scaling in charges in order to meet allowed income under the Price Control creates the impression that there is significant disparity between actual use of system costs under the methodology and those allowed under the Price Control. This aspect may merit further investigation.

Yours sincerely

Adrian Callaby
Director

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