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(by e-mail)

Dear Lewis,

**Delivering the electricity distribution structure of charges project: decision on a common methodology for use of system charges from April 2010, consultation on the methodology to be applied across DNOs and consultation on governance**

Thank you for the opportunity to provide views on the above consultation. ScottishPower Energy Retail welcome the opportunity to provide our views on how best to achieve a common methodology across all DNOs and on what form of governance is appropriate for the methodology.

This response is non-confidential and we are happy for this to be posted on your website.

We have considered the key questions within the consultation and have noted our thoughts below.

**1. Whether the respondents agree that Ofgem should specify the common methodology to be applied across DNOs.**

As a supplier we have sympathy with the concerns raised by the DNOs regarding the implementation of a common charging methodology. We acknowledge that most DNOs have developed, to varying degrees, separate charging methodologies to date and so have invested resource, time and money to do so. Nevertheless we agree with Ofgem's conclusion and the views of other non-DNO parties that it is indeed appropriate to introduce and specify a common charging methodology across DNOs. We also support the view that the introduction of a licence obligation on DNOs to deliver revised charging methodologies is the most efficient mechanism to achieve this.

We are supportive of the reasons for Ofgem's decision to introduce a common charging methodology including:

- The introduction of simpler and more transparent charging, resulting in more straightforward understanding of such charges;
- A reduction in the complexity of charging for suppliers;
- The introduction of a reliable and consistent framework for IDNO investment; and
- Efficiencies in change management.

## 2. The pros and cons and impacts of each model

ScottishPower Energy Retail recognises there are pros and cons associated with each UoS Charging Methodology. Generally we agree with the points highlighted by Ofgem, however at this time we have no clear favourite methodology. As a supplier we want the chosen methodology to follow the principles noted within annex 2 of the document and, moreover, to introduce clear and transparent charging that will provide greater understanding of the charges applied, which will reduce the current complexity we deal with across varying charging methodologies.

As mentioned above annex 2 details the principles to be followed for the structure of charging projects. In order to ensure any charging methodology meets with the principle of applying to demand we believe it is essential that Ofgem address the current area of common grievance, from both suppliers and customer perspective, in regards to UoS charging inconsistencies for capacity and reactive excess. Specifically, at present unnecessary subtle differences are encountered in the way DNOs recover particular elements of site-specific excess capacity and excess reactive power UoS costs. It is our view that there does not appear to be a standard approach to time elements of penalties or consistency with which they are applied. DNOs need to apply relevant cost signals and provide load management incentives, but it would help customers and suppliers if these could be calculated and applied consistently.

While some DNOs refer specifically to capacity charging in their methodology documents others leave the detail to the charging statements, which is a further inconsistency. For example Distributor A's methodology states, *"where the capacity requested is exceeded then charges will be levied at the increased capacity will be backdates to 1 April"*, as opposed to Distributor B who state, *"whenever the chargeable capacity in a month exceeds the authorised the authorised capacity will be reset to the higher figure until further notice"*, or Distributor C who include the following, *"if the maximum demand in any month is greater than the agreed maximum capacity we will apply the availability to a suitable higher block for at least 12 months"* and Distributor D who advise, *"the chargeable supply capacity shall be the highest of the Supply Capacity in that month or an any month of the previous eleven months"*.

Such inconsistent approaches across the UK result in customer confusion; for example, a large group may have two identical sites with identical demand in different parts of the country and be charged in completely different ways.

In line with Ofgem's reasoning to introduce common charging methodologies we believe there should be only one method of calculating and charging an excess capacity or excess reactive power. As it stands the current process provides no incentive for customers to reduce their excessive charges in certain locations as Distributor A is not going to charge them at all (reactive), Distributor B is only going to charge for one month

(exceeded capacity), Distributor C is not interested in reviewing the connection agreement (exceeded capacity) and Distributor D is going to permanently penalise a customer for a one off error (exceeded capacity). Suppliers experience problems with specification and design of Billing, Validation and Pricing systems as a direct result of the current variety of capacity related charging options, which would be resolved if a common methodology was introduced that applied a basic set of rules to excess capacity and excess reactive power. This would also be advantageous to large customers, particularly those with many sites across the UK since they would have some idea of what to expect and how to reduce their capacity and reactive excess.

### **3. Governance arrangements and the options set out in annex 3**

Our preference is Option 1, i.e. the common use of system charging methodology being subject to DCUSA governance arrangements, along with amendments to SCL13 to include within the condition that any modification proposal should apply to the common charging methodology. We believe this option will provide certainty for all parties. The use of DCUSA to manage the governance arrangements will allow the security of an industry code, without the administration and resource costs of setting up a new code. Also, since one of the main purposes of DCUSA is UoS charging we believe it would be practical to also include the mechanism for calculating the charges within the body of DCUSA.

Additionally, the use of DCUSA to govern the UoS arrangements could utilise the DCUSA Issue Group (DIG), which is currently being consulted upon via DCP 023. This would provide the ideal platform for any methodology changes going forward. We would see this operating within strict timescales for a proposed change (as suggested by either a DNO or non DNO) which, would be reviewed by DIG and then proceed down the full DCUSA change process. Such a process would enable all impacted parties to fully discuss and debate any changes in order to understand all impacts prior to being passed to Ofgem for determination. We believe following such a process is in keeping with the concept of self-regulation and could eventually lead to the removal of the Ofgem determination process for certain changes. This also links in to Option 2 requirements to set out formal obligations on licensees to consider and formally respond to change proposals submitted by non-DNO industry parties.

### **4. The proposed processes set out in annex 4**

As noted by Ofgem within the document the timescales are tight and very challenging. Given this one fundamental concern is where the situation may arise that the revised methodology cannot meet the proposed timescales. We do not see what the alternative is other than continuing under the existing charging methodologies. Also, we appreciate and support the drivers to implement the changes on 1 April 2010, tying into the next DNO Price Control, but we would also like to highlight that April is the busiest time of year for contract renewals, hence suppliers need some certainty around any common charging methodology as early as possible to facilitate renewals and new business. As a minimum timescale, DNOs and IDNOs must adhere to the industry agreed timescales for the publication of both indicative and finalised charges. We do not feel that any reduction of publication timescales should be permitted.

The timetable advises that Ofgem intend to make a decision on the form of the common charging methodology in September 2008. We believe it is imperative that Ofgem meet this timescale in order to have any chance of hitting the proposed implementation date of 1 April 2010.

With regards to some of the tasks required under the timetable there is a high dependency on the 'industry' to establish working groups to implement the changes and decide on the governance arrangements of the common charging methodology. We are concerned that given the DNOs lack of agreement on the introduction of common charging methodology the necessary drivers may not exist to encourage active participation in these groups. The success of these groups will be fundamental to the delivery of this project and as such will be required to be driven by Ofgem.

**5. Whether there are any other matters Ofgem need to consider in light of our decision on a common charging methodology**

The consultation document focuses on DNOs, with minimal consideration of IDNOs. Appendix 5 does refer to the fact that IDNOs are required to replicate the charging arrangements of the incumbent DNO and mentions that IDNOs may require specific provisions in SLC13. We would expect to see some mention of IDNOs in the revised drafting to SLC13. This provides clarity to all industry parties.

I hope you find these comments useful. If you require further information on anything within this response, please do not hesitate to contact me on the number above.

Yours sincerely,

Lorna Gibb  
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ScottishPower Energy Retail