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Our ref

Your ref

Date

6 January 2009

Dear Rachel

Next Steps in Delivering the Electricity Distribution Structure of Charges Project

We are responding to Ofgem's further consultation on the Structure of Charges Project following the rejection of the proposed licence change by SSE and SP.

We would like to express our opposition to Options 2A and 2C to continue with development of an HV/LV common methodology only and abandon commonality at the EHV level at this stage. This leads us to support Option 2B as the only option available to Ofgem to progress this project.

There were four main objectives for the Structure of Charges project:

- creation of cost reflective charges for generators and locational cost reflective charges for EHV generators
- locational demand charges to reduce reinforcement requirements during the DPCR5 period and beyond
- cost reflectivity between demand and generation charges to allow the merger of the two regulated 'pots' of allowed revenue to reduce the current distortion to charges caused by scaling marginal charges to required revenue
- a single methodology rather than 7 or more so that suppliers can better predict the future path of prices and hence include a lower risk premium in end prices

Not pressing on with the complete project will result in none of these objectives being delivered.



It would be disappointing, given the resources and management time the WPD has devoted to this project if Ofgem were to recommend to the Authority that this should not be progressed by referring the need for a common methodology to the Competition Commission. Despite the delay that a referral would cause, we believe that this will be a quicker route to overall delivery compared to an extended project consisting of initial delivery of only the non-locational aspects. It is the locational aspects which are the key to delivering the first three objectives.

Finally, as expressed by WPD throughout this project, whilst we continue to believe that the LRIC approach at EHV is the most appropriate, we would actively work with Ofgem and the other DNOs and IDNOs to deliver any form of a complete methodology to achieve the objectives outlined above.

Please do not hesitate to contact me should you wish to discuss any part of this letter.

Yours sincerely

A handwritten signature in dark ink, appearing to be 'AS', located below the 'Yours sincerely' text.

ALISON SLEIGHTHOLM
Regulatory & Government Affairs Manager