

Rachel Fletcher
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Ofgem
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Dear Rachel

Delivering the electricity distribution structure of charges project

British Energy supports the decision to implement a common distribution charging methodology. We also agree that Ofgem should take the decision on the methodology for common adoption and implement it through a collective licence modification. We would prefer earlier implementation given the complexity different charging methodologies currently impose on the supply market.

The supporting detail on the decision and the project appended to Ofgem's 22 July letter provides a robust basis on which to take the project forward. We, along with other suppliers, would welcome the prospect of active engagement in the development process.

Responses on the specific questions in the open letter are set out below.

Should a common methodology be applied across DNOs

Yes. The distributors will not be able to agree a common methodology in a timely fashion, and we therefore agree that Ofgem should decide between the competing methodologies and approve the common methodology. The regulator is much better placed to take a balanced view of the design criteria on behalf of a range of stakeholders other than the DNOs.

The pros, cons and impacts of each model presented

In general:

- the key requirement must be to put in place charging arrangements that support competition in the supply and generation markets. Most participants have a strong preference for stability and commonality. In practice this means simpler and more transparent arrangements should be preferred to over complex, model-driven outcomes that are hard to forecast year-on-year (or even within year);
- similarly there is a key trade off between cost-reflectivity and stability of charges. Stability is very important to market participants, especially in an environment where year-on-year changes can fluctuate significantly because of over and under recovery; and
- options that include capping year-on-year changes and giving users the option of a more stable charge based on a prediction of charges into the future would seem to have considerable merit given the government's and the regulator's wider objectives for the sector, as well as on competition grounds.

We do not have detailed views on each of the features Ofgem has set out.

Governance arrangements and options set out in annex 3

An industry code governance arrangement based on the DCUSA model is best. However the restructuring should not be achieved through the separate governance review initiated by Ofgem, and the new arrangement would need to be pushed through expeditiously if the necessary timescales are to be achieved.

The proposed processes set out in annex 4

The timescales and processes look broadly right. The work of the working group should be front loaded where possible to ensure deadlines are met.

Whether there are any other matters.

We concur with the Ofgem suggestion that distributors should not bring forward further formal modification proposals for the time being, until the new licence arrangements are set in place and put into effect.

Please let us know if you would like any further comments or to discuss any aspects of this letter further.

Yours sincerely,



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