

**From:** Sheern, Glenn (Retail) [mailto:Glenn.Sheern@eonenergy.com]

**Sent:** 14 August 2008 21:48

**To:** DistributionPolicy

**Subject:** FW: 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

We appreciate this further opportunity to comment on the decision to implement a common methodology for use of system charges. I will take each of the five points that are seeking comment on in turn.

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

It has been proved in the past that DNOs have found it difficult to agree to a common methodology that can be applied across the industry. In our opinion it is unlikely that without Ofgem specifying which methodology should be implemented, DNOs will not come any agreement. Therefore there seems to be no other solution then to specify a common methodology. However it will involve Ofgem being very specific about what their requirements are for a solution to implement in a timely manner. We understand that changing to a common methodology is likely to result in some disturbance in tariffs. We believe it is better to deal with this once and across all our customers than in the varying fashion we have to deal with at present.

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

The decision on which specific model is taken forward is less important to us as a supplier than the need for a common and transparent approach to charging particularly when it comes to a common structure of charges.

We are in agreement with Ofgem that there has been a great deal of divergence in the application of the DRM. We would see this as an opportunity to re-align the differing views for HV/LV customers.

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

Our preference would be for first option set out in the consultation. By incorporating these arrangements into the DCUSA it allows for a completely open and transparent process for assessing future changes. It allows suppliers to contribute to the debate and to suggest alternate solutions to any modifications that may be made. We do not believe that it would result in spurious modification proposals by parties as feared. In our view there are likely to be few independent change proposals made by suppliers but the ability to work through any raised by Distributors as part of a modification group is likely to lead to a greater appreciation of the process. Which ever option is ultimately chosen it is our view that the DCUSA should be the forum for addressing the common structure of charges, both that are affecting us now and in the future.

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

We are supportive of the process as laid out in annex 4 particularly the timescale to ensure resolution to this issue which has been allowed to stagnate for a number of years.

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

The most important aspect in our opinion of a common methodology would be the mandating of a common structure of charges. This has been an issue for suppliers for a number of years with various attempts to resolve these issues being made and despite an assurance from DNOs in the past little attempt has been made to move to a common approach. This is now the ideal time to mandate a common structure across all DNO and IDNO parties. There are a number of issues we would like to see addressed as follows.

1. a) Uniform charging units. At present almost all the DNO companies make use of different charging units for charging capacity and fixed/administration charges. All these different approaches just add an unnecessary degree of complexity during the costing and DUoS settlement process that requires different algorithms and system developments for each approach:

a. **Capacity Charges** – there are many different forms that DNOs use to charge for capacity or excess capacity. For metered supplies the possible capacity charging units are:

- i. p/KVA/day
- ii. p/KVA/month
- iii. p/KVA/month (<200 KVA,>200 KVA) – 1 DNO uses this approach
- iv. Current capacity charges range from £0.1/KVA/month to £1.96/KVA/month

b. **Fixed Charges** – currently there are three main ways that DNOs charge for fixed costs:

- i. p/MPAN/day – used by 5 DNOs
- ii. p/MPAN/day (NHH) and p/site/day (HH) – used by 4 DNOs
- iii. p/MPAN/day (NHH) and p/site/month (HH)
- iv. Current fixed charges range from 0.16p/MPAN/day to 24,742p/site/day.

2. **DUoS Recovery Method** – in most cases the DNOs use a combination of fixed and variable costs to recover their costs. However, there is a marked difference between different customer types. For instance, one DNO has no fixed costs for domestic customers (i.e. 100% variable charges) and for certain HH customers, only a capacity charge (i.e. 100% fixed charges). It would be very helpful if a common

approach was adopted by all DNOs to remove any uncertainty caused by purely variable costing elements.

**3. Inconsistent DNO policies** – there seems to be no DNO specific policies in relation to the manner in which the following cost components are recovered:

**a. NHH Duos charging mechanism**– all DNOs except 2 charge NHH Profile Classes 05 – 08 MPANs via the Supercustomer methodology. One of these two DNOs has indicated that it is looking to move away from the NHHMD methodology as part of their proposed new charging methodology.

**b. Reactive power cost recovery** – examples of inconsistencies are as follows:

i. Certain DNOs charge for reactive power and others do not.

ii. Differing formulas are used to calculate Reactive Power charges; RI and RE values are netted off, the sum of RI and RE or RI only

iii. The Power Factor usage is not consistent.; Chargeable Reactive can kVArh units in excess of 33% or 50% of AI

iv. One DNO has a rate 1 and rate 2 method for calculating Reactive. Furthermore, it is the only DNO that applies a Reactive estimation formula where no reactive data is recorded

**c. HH DUoS charges for volume** – DNOs have varying charging structures depending time of day, seasonality and peaks in demand around seasonality.

**d. Granting of Authorised Supply Capacity** – majority of DNOs accept any Capacity values but 2 DNOs will only allocate ASC values in blocks e.g. blocks of 50 kVA

**e. Charging for excess capacity over ASC** – there seems to a high degree of inconsistency with the manner in which DNOs attempt to recover costs from customers once they have breached their ASC. One DNO does not charge for excess, some DNOs charge the excess value (based on the MD) for the next 12 months There are also a number of different arrangements for retrospective cost recovery., some will charge it at the suitable higher block for 12 months (see point c) and some will charge for the month it has been exceeded. One DNO will retrospectively charge the new value back to the 1st of April in that year and set the new value until the 31st of March.

**f. Capacity charging for de-energised sites** – at present only two DNOs charge for capacity on de-energised sites whereas the other DNO companies do not. It is worth noting that all other DNOs do not levy any charges for De-energised, however; they reserve the right to do so.

**g. Alternative Capacity charging:**

- i. One DNO offers an Availability charge reduction under certain restrictions but only in 2 of its 3 distribution areas. The customer can submit an application to this DNO for a reduced ASC value during the winter month
  - ii. One DNO offers a reduction in tariff during its winter months under certain restrictions
  - iii. One DNO still has a preserved tariff that offers a Day / Night Capacity
- h. Generation DUoS** – there are inconsistencies in charges for the HH market for post Apr-05 connections; some DNOs only charge for kVA while another charges for kVA and Reactive while another only applies a standing charge. Only a few DNOs charge for NHH Profile Classes 05 – 08 sites
- 4. Standardised LLFC Identifiers** – there exist many hundreds LLFC identifiers across all DNOs all with a common purpose. It would make rational sense for all DNOs to use a common set of LLFCs and reduce the operational burden placed on suppliers when updating their costing models following DUoS price changes and settling UoS charges. Another consistency issue relates to EHV sites: all DNOs with the exception of one have LLFC IDs specific to the site.
- 5. Withdrawal of legacy tariffs** – another source of inconsistency is DNOs not having a common approach to dealing with legacy DUoS tariffs. In all cases, when a legacy tariff is withdrawn by the DNO, both the Condition 4 statement and the MDD should be updated at the same time to reflect this change. However, there is currently a mismatch between Condition 4 statements and the MDD with legacy tariffs.
- 6. Inclusion of IDNOs in common approach** – clearly it would be prudent to ensure that IDNOs also adhere to a common methodology for DUoS charging as per the DNOs, whatever form it takes. IDNOs are subject to relative price control so it is logical for them to adhere to the same charging methodology as DNOs – it should be consistent across all distributors
- 7. Inclusion of a valid PC/LLFC ID/SSC/MTC lookup table in MDD** – although this is something that is being discussed in MDD forums, it would prove hugely beneficial in the attempt validate the many thousands of inaccurate NHH top-lines that currently exist in the industry. The treatment of Invalid Settlement Class combinations in the NHH market is inconsistent across DNOs; some will apply a default tariff, some will charge it based on its LLFC ID while others will not charge it at all.

This complexity in the differing approaches taken by DNOs does not seem to be justified. We would like to see the scope of this common methodology taking into account enough detail to address these issues.

Regards

Glenn Sheern

Retail Regulation

E.ON UK

Mob. +44(0)7834 621647

Mail. [glenn.sheern@eonenergy.com](mailto:glenn.sheern@eonenergy.com)