

Karron Baker
Distribution Policy,
Electricity Distribution
9 Millbank,
London,
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3rd October 2008

Dear Karron Baker

Consultation on proposals from Electricity North West Limited to modify use of system charges for independent distribution network operators (IDNOs), HV/LV generators and the DRM

We have noted ENW's proposals with concern. Whilst ENW are clearly responding to policy requirements to increase competitiveness of IDNOs and to facilitate renewable generation, their proposals include excessive short-term disturbance to existing charges for suppliers and demand customers. We do not believe that they should be approved.

We are not commenting in detail on these proposals, but we offer below some general comments on the proposals from the perspective of our business which is a small but growing electricity supplier focussing entirely on serving SME consumers in the competitive market.

ENW's proposals include significant changes in charges due to allocation of costs across different users. They are not driven by changes in ENW's costs themselves, and without making these proposed changes there is little risk to ENW's revenues, which will invariably reconcile eventually with those allowed under the price control. However, as identified by your analysis, the impacts of cost increases for some network users will be significant.

We are concerned not only by the nature of these changes, but also their timing. In our view it is inappropriate to be proposing changes of this scale for April 2009 when there is a clear plan to produce a common methodology across all DNOs for charges as from April 2010. As a relatively new entrant to the supply market, we already have a complex and costly task in tracking and assessing the impact on our business of changes to DUoS. Changes as proposed by ENW would be unwelcome at this time.

As our customers are in the SME market where customers are not used to 'pass through pricing', we would be exposed to additional costs deriving from the proposed changes to the NHH non-domestic tariffs. Whilst we support the view that IDNOs should be able to make a fair margin, this should not be paid for in the short-term by increasing charges to suppliers. Where any changes to charges can be justified and are in-line with sound charging principles, then we would expect them to be phased-in as we suggested in our 1st August response to your decision document on a

common methodology. The impact of sudden and substantial DUoS price disturbances such as those proposed on SME suppliers would be considerable.

Your consultation paper refers often to the impact of these proposals on customers, but the impact generally depends upon how DUoS charges are packaged into the suppliers' products. Again, we commented on this in our 1st August response. We do not believe it is in the interests of many smaller customers to include explicit pass-through of DUoS in all forms of contracts. Costs which cannot be anticipated and have to be absorbed by smaller suppliers such as Haven in the short-term represent a real business risk to margins. As SME specialists we (and other smaller suppliers) would not benefit from the reductions in DUoS proposed for other classes of customers. A threat of this nature to the smaller supplier community could potentially damage the competitive market.

For generators, we note that ENW's proposals include some re-balancing of charges between connection fees and generator DUoS. Going forwards, we will also be interested to understand the degree to which there is any re-balancing of charges from generation DUoS to demand DUoS. If the connection of generators is of benefit to the distribution network, then we would expect costs to reduce rather than be re-allocated.

We applaud Ofgem's work in analysing the changes to charges created by the proposed changes to methodology. This has been helpful for our own analysis, and in our view should be the norm for all future consideration of changes to DUoS.

I trust that our comments are helpful. Please let me know if you require any further information.

Yours sincerely

Peter Bennell