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Our Ref	*Your Ref*	*Direct Line*	*Date*
R/LC4a	125/08	01179 332175	4th September 2008

Dear Rachel

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

This response is from Western Power Distribution (South West) plc and Western Power Distribution (South Wales) plc.

With reference to the issues raised, our responses are as follows:

IDNOs

1. Respondents' views on the use of a day/night restricted tariff for IDNOs;

We agree that the use of a day/night split of charges for predominately domestic developments is appropriate. It is important that the ratio of day/night split is appropriate so that there is not a significant distortion when the IDNO applies an unrestricted domestic tariff to the end customers.

2. Whether respondents consider the lack of an IDNO commercial tariff would influence the development of IDNO commercial connections;

There is no difference in the characteristics of, or cost of servicing, an IDNO commercial site of a particular capacity and an individual commercial customer of the same capacity. Hence we believe that it is appropriate to use the existing commercial tariff for these sites.

3. Whether respondents agree with the approach to avoided costs attributed to IDNOs?

It is difficult to tell if the result is appropriate, as the method of scaling to required revenue can cause further distortions. There is not enough detail in the proposal to fully understand the effect.

HV/LV Generation Charging

4. Whether respondents consider generation should be treated as the reverse of demand?

Whilst not an ideal solution, there are a couple of reasons at present that mean it is likely to be appropriate as follows:

- networks are and look as though they will continue to be demand dominated for a long time. Hence small generators generally offset demand at the local level.
- most of the generation connecting to distribution network will operate if they can and hence averages can be used.

5. Whether respondents consider average generation load factor is an appropriate proxy for the coincidence factor?

For half hourly metered generation (all in excess of 30kW) it is possible to derive the actual coincidence factors. These appear to group by generation type and hence this may be a better way of categorising different benefits rather that the use of load factor.

6. Whether respondents agree with the allocation of benefits to generators with a load factor either side of 50%?

In creating generator tariffs there is a need to reflect the varying benefits/costs that different generators bring without ending up with site specific charges. An appropriate 'break point' between different tariffs is often best established by a graph showing the distribution of, in this case, load factors. This data is not presented in the modification request to support the 50% hence we are unable to give a view on its suitability.

DRM Modifications

7. Whether ENW's approach to scaling is appropriate? Do respondents consider any distortions will arise when moving from a fixed percentage to a fixed adder?

It will clearly give a different result to their existing method of scaling and the degree of difference will depend on the size of scaling required. Usually with such a change this would mean a reduction in the highest

prices and an increase in the lowest, however with negative scaling, this would work the other way round. It is hard to say which approach is most cost reflective of these other costs.

8. Do respondents have any thoughts or comments on the fact that ENW currently scale down, i.e. they propose to apply a negative fixed adder?

The need to scale down appears odd as it implies that the marginal charge is greater than the average charge. It may be that there is some double counting of costs in the model somewhere.

9. Do respondents consider the use of the RRP data is sensible for the O&M percentage?

Whilst O&M cost vary slightly from year to year due to cycles in asset maintenance requirements, there is unlikely to be a significant error in the use of RRP data unless the data used was exceptional for some particular operational reason or due to a program of works caused by a change in legislation. Given the description of how this percentage is currently derived, it is difficult to see why there would be a significant difference in the result.

10. Do respondents consider the changes to the network yardsticks for connection costs and subsequent changes to the availability charges are sensible?

The changes to network yardstick costs are sensible and attempt to reflect the costs recovered via connection charges. We do not understand the need to change the method for calculating availability charges and there does not appear to be any evidence in the proposal to support a change.

11. Do respondents consider ENW's approach to model the minimum costs of connection for the future asset replacement cost is sensible with regard to their service models?

The use of typical minimum cost models for connection assets is appropriate, but the proposal does not detail the calculations used to calculate the costs attributed to customers so we are unable to comment on these.

12. Are licence fees something that can be attributed per customer that reflect costs incurred by the licensee?

As with many of the costs, it is difficult to find a sensible method of attribution that is not kW related. Hence we believe that licence costs, along with a number of other costs, should be accounted for in the reconciliation to required revenue.

Should you wish to discuss any aspect of this response, please do not hesitate to contact Nigel Turvey (nturvey@westernpower.co.uk).

Yours sincerely

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