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**Ms Rachel Fletcher**  
**Director Electricity Distribution**  
**The Office of Gas and Electricity Markets**  
**9 Millbank**  
**London**  
**SW1P 3GE**

5<sup>th</sup> December 2008

Dear Rachel,

**Consultation on IDNO and DNO out of area use of system charges: reduction of the 3 month notice period for amending charges under SLC 14(20).**

Thank you for your invitation to comment on this matter and provide the views of Energetics Electricity.

IDNOs were granted temporary licence consents as a result of conflicts in meeting the requirements of both SLC 14 (20) and BA2(3)

SLC 14(20) states:-

***"The licensee shall, not less than three months before the date on which it proposes to amend its use of system charges in respect of any agreement for Use of System....give the Authority a notice setting out those proposals".***

While BA2(3) states:-

***"...set charges so that, except with the prior written consent of the Authority, the standing charge, unit rate and any other component of charges shall not exceed the distribution use of system charges to equivalent domestic customers".***

IDNO Use of System (UoS) charges are clearly dependant on the upstream charges of the host DNO. However the IDNO, in order to meet the three month requirement of its licence condition, must provide notice of any changes to its UoS charges the same day it receives them from the DNO. Currently Energetics Electricity operates in twelve of the DNO licensed areas, which means that there are potentially twelve sets of changes to entire suites of tariff structures each time the DNO reviews its own UoS charges. This is compounded further, as the DNO carries out this review twice each year.

Therefore in answer to the first question that is posed, Energetics Electricity clearly does not believe that the two licence obligations under SLC 14 and BA2 are compatible. We would go further and state that they contradict each other and can put the IDNO in technical breach of its licence due to the near impossible constraints imposed in meeting this requirement.

Energetics Electricity is obliged under Licence Condition 13 to outline its charging methodology. Whilst the Relative Price Control under BA2 relates only to domestic customers, we have stated in our charging methodology statement that

***“Energetics Electricity charges are governed by a Relative Price Control (RPC) as per the Licence Condition BA1 of the Distribution Licence. In effect, this means that the charges levied by Energetics Electricity for Use of System cannot exceed those charged by the local ex-PES Distribution Network Owner’s (DNO’s) network. In order to satisfy this requirement, Energetics Electricity’s charges are structured to replicate those of the local DNO’s network. This replication will also apply to all categories of demand and generation customers connected to the Energetics Electricity Network. These charges may vary year to year as these DNO’s set their use of system charges to recover their allowed revenue”***

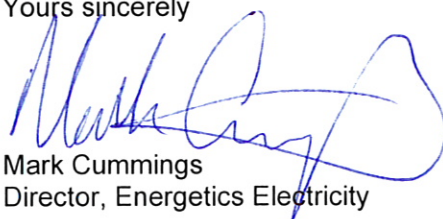
We believe that this statement alone should be enough to provide comfort to the suppliers that the charges received from Energetics Electricity would mirror those that they currently receive from the DNO. We also have to comment that to date we have not been notified of any issues or complaints from suppliers or any other interested parties regarding Energetics Electricity’s UoS charges and would be interested to hear of any specific examples that suppliers may have experienced.

In terms of resolving this issue, it is clear that the notification period of three months is the root of the conflict. If an IDNO has stated that it is mirroring the host DNO’s UoS charges, then it is entirely reasonable for the notice period contained in SL14 to be reduced to either two months or less. Suppliers should feel comfortable that the changes to UoS notified by the DNOs will be matched identically by the IDNO. Clearly this only applies to IDNOs who have statements that confirm that they replicate all categories of demand.

With all the issues that currently exist regarding IDNO charging and the problems that these cause, we have an opportunity to rectify one of the glaring obvious problems which impact IDNOs by modifying SL14(20) and the notification period to a more reasonable and realistic timescale.

Finally, may I thank you for the opportunity to comment on these proposals and we look forward to receiving your views on the best way forward.

Yours sincerely



Mark Cummings  
Director, Energetics Electricity