

26 January 2009

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Dear Colette

Next steps in delivering the electricity structure of charges project

We believe there are a number of issues that need to be considered before Ofgem decides how to progress the electricity structure of charges project. We believe the focus should be on delivering fair, stable, predictable, transparent and simple prices for consumers. In the development of the project, it is important to remember that the vast majority of consumers are passive users of the network and unable to respond to price signals.

Ofgem has stated that it believes the most appropriate way forward is to refer the matter to the Competition Commission (CC). We recognise that there may be some merit in the CC thoroughly examining the issues and providing a decisive view. However, we note that the costs of this approach are likely to be significant. Ofgem needs to provide a detailed analysis of the costs and benefits of making a CC referral on this matter as compared to the other options put forward in the Ofgem consultation paper or the proposals put forward in the ScottishPower Energy Networks (SPEN) and Scottish and Southern Energy Power Distribution (SSEPD) briefing paper.

The consultation document suggests that the Ofgem proposals will deliver real benefits to suppliers and customers, introduce simpler and more effective governance arrangements, help tackle climate change and encourage demand side management. We would urge Ofgem to quantify the impacts where possible. In particular, we believe Ofgem needs to analyse the impact of long run incremental cost (LRIC) pricing versus forward cost pricing (FCP) on different consumers. Whilst we recognise it may not be possible to run LRIC and FCP models for all consumers in all regions, we do believe it should be possible to run some scenarios to gauge the potential range of impacts.

We are concerned that some of the arguments put forward by SPEN and SSEPD have not been fully addressed. Of particular concern is the view that the LRIC will not facilitate competition and will result in unexpected and volatile charges, which may vary significantly year on year. In their briefing paper to the DCMF, SPN and SSEPD cited an example of a business consumer who would face up to a 12 times increase in its use of system charges under the Ofgem

proposal even though investment in the network is not forecast to be required for many years. Further, it is argued that it is not viable for this consumer to simply relocate to avoid them. Such an increase in charges would be a material issue for any consumer but is even more significant during the current economic climate.

We urge Ofgem to undertake more detailed analysis of the different options so that an informed judgement can be made on the best way forward for consumers as it is the end consumer that will ultimately bear any additional costs.

Yours sincerely



Robert Hammond
Head of Regulated Industries