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Dear Rachel,

I am writing to you in response to your consultation on the next steps in delivering the electricity distribution structure of charges project. Below are the E.ON UK supply business responses to the questions set out in the consultation.

**In this chapter we highlight the key objectives for the structure of charges project and explain why these objectives are policy priorities for Ofgem. Do you consider that Ofgem is right to prioritise delivery of these objectives?**

We believe that Ofgem are right to pursue the delivery of these objectives. There are potential benefits throughout the industry for Customers, Suppliers, Generators and Distributors.

**Given the potential benefits of delivering the project for electricity customers, generators, distributors and suppliers, do you agree that it would be appropriate for Ofgem to continue to pursue delivery of the project?**

We believe that there are long term benefits to be gained from delivering a common structure of charges and therefore that Ofgem should continue to pursue the project.

**Do you consider it would be appropriate for the Authority to**

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**refer the package of measures consulted on in our October Proposal for a ruling by the CC? On this question we invite generators, suppliers and customer groups to confirm which aspect of our October decision would deliver the greatest benefit to them, and where possible quantify this benefit.**

Whilst we are supportive of the aim of Ofgem to provide a common methodology and structure of charges, we are not convinced of the value of referring the October Proposal to the Competition Commission. As a supplier a common model is less important to us than a common structure of charges and common tariffs, although inevitably there is some connection between the two.

Suppliers bear the majority of the risk in recovering UoS charges and the complexity and variation within individual Distribution charges add to this risk. It is not always possible to merely pass through and recover UoS system charges from all customer groups. Suppliers therefore spend a considerable amount of resource trying to predict future charges to enable us to mitigate some of the risk associated with potential changes to charges. Once we are notified of changes to charges we again are forced to spend a great deal of resource into understanding the impact of these changes and their affect on customer tariffs.

Recent changes to DCUSA (DCP 001 and DCP030) have gone some way to aiding Suppliers in the forecasting of this information, but undoubtedly a common set of tariffs and a common approach would considerably reduce the amount of resource required in the passing through and collection of the charges levied on customers by Distribution Businesses. The introduction of common governance allowing Suppliers to propose changes would bring benefits to the arrangements. We would welcome this particularly in the area of structure of charges where in the past we have been thwarted in our attempts to ask Distributors to modify their behaviour when there is a clear benefit to the industry.

We would also note that although Distributors have a licence obligation to be cost reflective in their charging, that this does not include costs that are imposed on other participants as a result of the way they levy their charges. By simplifying their tariffs and the manner in which they are presented to suppliers, this will greatly reduce the total cost to the



industry and ultimately to the customer and that the total cost of charging should be taken into account when determining upon proposed modifications to charging structures.

We are pleased to note that following Ofgem's October proposal that Distribution businesses have been working toward this common approach and welcome the progress that has been made. We also note that at least one Distribution business has indicated that they would withdraw resource from this workstream (and the others currently working under the ENA) should Ofgem decide to seek a ruling from the CC. We would not welcome the disruption of the work that is being carried out and if a referral would result in this good work coming to a halt, we would prefer Ofgem not to refer to the CC.

**Do you consider that it would be more appropriate for the Authority to modify the October proposal by excluding the requirement for a common charging methodology at EHV level, and opening a CLM statutory consultation on a modified proposal to deliver commonality at HV/LV level only?**

This would be our preferred approach. This would deliver the greatest benefit to us as a supplier in that the charges we collect from customers at HV/LV are not always merely pass through charges and we therefore are at most risk at these levels. As a common methodology at these levels was not objected to by the distribution businesses, and they have already started work to deliver it, this would be an approach that should gain the most support.

**If you agree that it would be appropriate to consult again on a modified CLM proposal at HV/LV level, do you consider that it would be appropriate for the Authority to refer our October decision to implement a common LRIC methodology at EHV level for a ruling by the CC? If you do not agree that it would be appropriate to refer our LRIC decision to the CC, what option would recommend to the Authority to deliver revised charging methodologies at EHV level?**

We do not believe it would appropriate to refer the LRIC model at EHV level for the reasons previously stated. Our preferred approach would be that laid out under option 2C. This option would enable revised governance arrangements at all levels as well as the benefits of common structure of charges at HV/LV.

**Are there options we have not considered for ensuring delivery of the structure of charges project, if so what are they?**

No, we believe that the options outlined in this consultation are adequate.

Yours sincerely

Glenn Sheern  
E.ON UK

