

Distribution Policy Response  
Networks - Distribution Policy,  
2<sup>nd</sup> Floor  
Ofgem  
9 Millbank,  
London,  
SW1P 3GE

7<sup>th</sup> January 2009

Dear Sir,

**Next steps in delivering the electricity distribution structure of charges project. 160/08**

I am writing to respond to your consultation document on the above project. Whilst we have been generally supportive of this project we always believed that Ofgem would implement it in a controlled way and ensure that individual customer charging disturbances were kept to a manageable level. Following our recent discussions this no longer appears to be the case.

We now believe that Ofgem has placed far too much weight on the EHV and Distributed Generation aspects of DNO charges and has not properly considered the impact of the proposals on the different customer groups making up the HV and LV connections that provide the vast majority of DNO income.

As you are aware from our previous responses and discussions we are particularly concerned about the impact that your proposals will have on distribution costs for SME customers. We do not believe that sufficient attention has been given to the consequences of your proposals at individual customer segment level.

We believe that you should have taken more account of the impact of your proposals on the customer groups that make up the HV /LV segment and that any referral to the Competition Commission should examine the costs and benefits and implementation issues for this, the largest group of customers. It seems inherently unsatisfactory for the impacts of your proposals for this very large group of customers to have had so little examination and discussion in your previous documents. If the impact of the changes that you have proposed had been made more obvious you would probably have received much greater input.

Many of these customers are not well represented and do not have the same voice that EHV and Distributed Generation interests enjoy. It is also not clear that the various consumer groups that have responded to your previous consultations have properly understood the consequences of the changes that you have proposed on the major SME, Domestic and I&C segments that make up the HV and LV connections. Average distribution charge disturbances of 25% to 30% mean that some customers will see their distribution charges double!

Turning now to the questions that you have raised:

Chapter 2 Q1. *Do you consider Ofgem is right to prioritise delivery of these objectives.*

We believe that much more priority needs to be given to the impact of the proposed changes on the majority HL/LV group of customers.

Chapter 2 Q2. *Do you agree that it would be appropriate for Ofgem to continue to pursue delivery of the project.*

We only support continued delivery of the project if much more attention is given to the impact of the proposals and the timing and manner of their implementation on the main customer groups making up the HV/LV segment.

Chapter 3 Q1. *Appropriateness of CC referral*

We would only support a referral to the CC provided they were asked to consider the impact of the proposals on the main customer segments in the majority HV/LV group which we believe has not received due consideration so far in addition to the other points set out in the document.

Chapter 3 Q1. *Which aspects deliver most benefit and quantify this.*

We do not agree with Ofgem's assessment of the benefits of these proposals for suppliers. In our experience little if any benefit will arise for suppliers by having a single common methodology.

In particular the benefits that are predicted to come from suppliers ability to better forecast DUoS by only having to deal with a single methodology are illusory given the much greater impact of the over and under recovery mechanism that governs overall revenue and which is driven in large part by volumes distributed which are notoriously difficult to forecast. We believe that the uncertainty in volumes will far outweigh any improvements in suppliers' ability to forecast DNO charges from a move to a single methodology.

The option to fix distribution charges is only really relevant for Distributed Generators and would be of little if any use to suppliers. Indeed it is difficult to see how this would work for HV/LV demand customers given that they may have multiple suppliers over a fixed period giving rise to real difficulties about understanding what DNO charges would actually apply. The market arrangements that would be required to implement optional fixed charging in the HV and LV sectors would add a further degree of complexity to an already complex set of processes and represent a further barrier to switching and competition.

In practice we do not believe that suppliers will derive any significant benefit from the proposals.

Chapter 3 Q2. *exclude EHV*

We believe that either the whole scope of this project including our comments above about the majority HV / LV customer group should be referred or the project should be abandoned. Breaking out bits of the proposal will lead to a worse position.

Chapter 3 Q3 *Other options*

We believe that the whole scope of this project including our comments above about the majority HV / LV customer group should be referred. Breaking out bits of the proposal will lead to a worse position.

Chapter 3 Q4 *New options*

As you are aware we are concerned about the impact of these proposals on some customer groups. A solution to this would be to phase these changes in over a

period of time; perhaps as long as a price control period. The introduction of a phased implementation may address some of the concerns that have been expressed by those DNOs that have not supported your proposals. You may wish to consider this before making your decision.

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

Yours faithfully

Peter Bennell