

Mathematical & Computer Modelling

W. R. Hodgkins MA, CMath, FIMA, MIMIS
15 Cotebrook Drive, Upton, Chester CH2 1RA
Tel: 01244 383038 email: WRHodgkins@aol.com
Vat.Reg.No: 742 3574 34

Rachel Fletcher
Distribution Policy - Networks
OFGEM
2nd.Floor
9 Millbank
London SW1P 3GE

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Dear Rachel,

Next steps in delivering the electricity structure of charges project

Response

I hesitate somewhat in replying to your consultation document as I realise that what I have to say largely repeats what I have said on several occasions previously, most of which has been formally submitted to OFGEM in response to a number of previous consultations.

The present impasse largely arises from OFGEM's view that their preferred LRIC methodology is in some way correct. Paragraph 2.17 states:

‘the LRIC model would provide the most cost reflective “foundation” for the common methodology. We considered that it was more appropriate to put in place a foundation methodology which was cost reflective rather than apply a foundation that was less cost reflective’

However, in my view the original Bath LRIC is fundamentally flawed. The restriction applied to the methodology by WPD and OFGEM to a single growth rate of 1% does not correct this, but merely limits the most excessive charge rates. At the same time it applies the same charge rate to locations where there is a constant or declining demand as to those with increasing demand. It is evident that this is in no way cost reflective.

Because of this unacceptable feature G3 have put in considerable effort developing a methodology which is aimed to be cost reflective and robust. There may well be features that OFGEM believe could be improved, and if OFGEM were to focus on the objectives of the overall process I don't see any major difficulty in modifying the G3 FCP methodology to better meet the objectives.

I find it very disappointing that OFGEM have failed to engage with the criticisms of the Bath and WPD implementations of LRIC. It is difficult to know whether this has been a deliberate unwillingness to take account of views other than their own, or whether OFGEM lack the technical knowledge to analyse such features in any depth. I don't see how these issues can be resolved by a vote. Rather they need to be examined by those possessing the necessary expertise. If OFGEM are not able to supply this then at this stage it may well be necessary to have recourse to the Competition Commission who have access to such expertise. In the long run no doubt matters will be examined more widely in the economics community but this could take some time.

On another point, I find it difficult to understand the strongly expressed desire by OFGEM for a common methodology at EHV. I appreciate the preference by most suppliers for a common arrangements at HV/LV, but most suppliers are not involved in UoS charges at EHV since these are charged directly by the DNO. Since a reference to the CC would involve considerable effort to be expended by all parties involved, this could well prove to be a distraction and cause delay to the delivery of a common methodology for HV/LV. It would therefore seem expedient to allow more than one method of setting EHV charges.

As you know I am willing to discuss any of the technical details with you or your colleagues at OFGEM if you so wish.

Yours sincerely,

Robin Hodgkins