



London Office
1st Floor,
85 Buckingham Gate,
London SW1E 6PD
Tel 020 7651 2000
Fax 020 7651 2001

Jenny Boothe
Industry Codes and Licensing
Ofgem
9 Millbank
London
SW1P 3GE

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Dear Jenny,

GOVERNANCE OF CHARGING METHODOLOGIES – INITIAL PROPOSALS

Thank you for the opportunity to respond to your Consultation Document. I am responding on behalf of all ScottishPower businesses.

We welcome Ofgem's moves to enable users to have an input in code charging methodologies and the initial focus on transmission. Arguments that user proposals could have an administrative cost do not seem to us different from the position on code modifications generally, where it is accepted by all parties that the user role is necessary and beneficial.

As to the approach to be taken, we support Option 3 which would bring the charging methodologies within the existing industry code governance. We think it would be simpler and more efficient (especially for smaller market participants) to have a single governance process, and see benefits in the independence provided by the use of a code panel to supervise the process. Finally, a valuable level of accountability is introduced by the potential appeal route to the Competition Commission.

We do not think this approach would lead to unjustified costs; charging methodologies can be as significant and have as many differential impacts on parties as other code modifications. We see no reason why a lesser standard of governance should apply.

Our responses to the detailed questions in the consultation document are attached. Should you have any queries on the points raised, please contact me using the details printed below.

Yours sincerely,

RUPERT STEELE
Director of Regulation

GOVERNANCE OF CHARGING METHODOLOGIES – INITIAL PROPOSALS

Chapter 3 Initial Qualitative and Quantitative analysis of impacts

Question 1 Do you agree with the output from the assumptions made within the quantitative analysis undertaken?

We agree that only modest efficiency or other benefits would be required from the charging modifications raised by parties to offset the additional costs quantified in the impact assessment.

We do not agree that option 2 would necessarily achieve the desired benefits at a lower cost than option 3. We think that the Option 3 feature of supervision by the independent code panel would help lead to better decisions, as would the inclusion of a potential appeal to the Competition Commission. This higher quality of decision making, with greater confidence in the governance arrangements, would reduce regulatory risk therefore encouraging investment and delivering an additional benefit to users.

Question 2 Are there any factors that you believe should have been considered in this analysis?

The analysis could have presented an analysis of the historical numbers of charging methodology modifications raised together with explanation of any underlying trends. This would have provided an indicator of which of the 4 scenarios considered (4, 12, 20 or 40 proposals per annum) is most realistic.

In section 3:30, the document puts some stress on cost reflective methodologies leading to more efficient siting decisions at the margin for users and generators. We would however say that cost reflectivity is only one part of the picture. For example, if higher locational signals (even if cost reflective) had the effect of making an onshore wind generation site unviable, the response could be additional wind generation offshore, at a higher cost to consumers because of the greater banding subsidy.

Other benefits that could be mentioned at 3:30 would include the ability to ensure that there are no distortions of competition and the ability to ensure that innovative charging proposals, with environmental or consumer benefits, are properly considered.

Chapter 4 Further proposals

Question 1 Which governance Option do you consider is the most appropriate for charging methodologies?

ScottishPower supports Option 3. We think that the clarity of standard governance; the benefits of a code panel supervising the process; and the potential of appeal all work together to achieve the highest standard of decision making in this important area. As Ofgem has identified, the costs of getting this decision making right are small compared with the potential benefits. In addition, a unified process will allow modifications with both charging methodology and other components to be considered together.

We do not think that the differences between general code and charging objectives will prove to be a difficult obstacle. Indeed bringing the processes together will enable the relationship between code and charging objectives to be properly considered.

While acknowledging the benefits of evaluating charging modifications in similar timescales to the associated code modifications, we have concerns that Ofgem decision making on charging proposals may become delayed to a similar extent to some other code modifications, thus increasing uncertainty.

Currently, there is a requirement on Ofgem to determine on CUSC charging proposals within 28 working days and perhaps it would now be appropriate to introduce a decision timetable for Ofgem across all codes and charging methodologies of say 3 months.

We note that at 4.23 “Ofgem does not envisage that charging methodology decisions would become subject to any form of self governance arrangements under the codes, were these proposals to be introduced.” This is of course right for substantive amendments. However, it might be appropriate to apply self-governance processes where charging modifications are of a minor or “housekeeping” nature and have the full support of the appropriate code panel, given that Ofgem would have a right to intervene where appropriate.

Question 2 Do you agree that we should initially focus on gas and electricity transmission charging methodologies, with gas distribution potentially to follow as a second phase?

Yes. We think that the main issues at present are around the structure of charges for transmission. We believe that the need for reform of governance of both gas and electricity distribution charging is of a second order and could be addressed at a future date.

Question 3 Do you agree that annual / biannual change and implementation windows are the most appropriate mitigation measures to progress going forward for all the options?

Yes. However, there should be the ability to raise “emergency” modifications in exceptional circumstances if supported by the Panel and at the Authority’s discretion.

Question 4 Do you consider a 3 or 4 month window to be sufficient time to consider modification proposals? Please indicate your preference for either 3 or 4 months.

Yes. 3 months would be sufficient provided Ofgem adhere to similar timescales during the approval process (see answer to question 1). We agree that placing an overall “cap” on the number of modifications allowed to be raised could lead to a race to submit proposals and may be detrimental to a sound modification process.

Question 5 Do you agree with our approach to defining “affected parties” who would be entitled to raise modification proposals?

We agree that the Authority should be able to designate affected parties who can raise charging modification proposals. We believe that these affected parties should be the same parties as currently designated to raise amendments under the various codes.

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