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Date

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Dear Rachel

Electricity distribution structure of charges project: DNOs' proposals for a common methodology at lower voltages. Ref: 114/09

We welcome the opportunity to comment on the issues raised in this consultation on behalf of CMG group of the ENA.

We are dividing our comments into two areas: firstly those issues identified as likely to be conditions on the approval of the CDCM; and secondly some additional issues also mentioned in the analysis where we feel it is beneficial to provide some comments or clarification.

1 Issues identified as conditions for the approval of the CDCM

The report correctly highlights the tight timescales associated with the implementation of the CDCM by April 2010. DNOs have to comply with licence requirements to provide formal notice of our proposals for a price change three months before implementation, which means that indicative charges for 2010-11 must be published by 31 December 2009. Therefore we feel it is important to clarify at this stage the likely issues related to any conditional approval notice, as suggested in paragraph 3.1 of Ofgem's document.

1.1 Generation dominated areas

The CDCM was developed following the assumption stated in the October 08 Ofgem document (paragraph 1.51) that the network is demand-dominated and therefore exporting generation connected to the network provides benefits in terms of deferral of the need for reinforcement.

Ofgem highlights that this assumption may not be appropriate in some cases and that it would be "entirely inappropriate to pay generators and therefore incentivise them to locate where the network is or has scope to be generator dominated", and indicates that DNOs need to review their approach and make proposals by September 2010.

DNOs have a number of concerns about this issue. Firstly, the definition of what is a “generation-dominated” network needs to be clarified. The analysis provided to Ofgem during the development of the CDCM, DNOs used the *installed* generation capacity as a basis for comparison against the summer demand. Very different results would be obtained from performing the analysis correcting the installed generation by the typical load factor for the relevant technology, or by examining how many substations actually experience “reverse flows” to the higher voltage levels during the year.

Secondly, we believe that the requirements under this condition are not clear, and it could become a potentially open-ended task. With the limited information contained in the consultation document, it is not clear whether what is wanted is an extension of the locational charging to the lower voltage levels, or whether a different approach to the averaging charging method would address Ofgem’s concerns. The consultation document also mentions the impact of HV and LV generation on the EHV levels, potentially introducing a multi-layer approach to locational charging in the lower voltage levels. We therefore believe that it is important that the decision document is as clear as possible in relation to what any conditional approval requires the DNO to deliver. This would allow for targeted industry participation as this issue could have significant impacts on some customer groups.

Six DNOs believe that it would be preferable that this area is not identified as a condition for the approval of the CDCM, but it should instead be dealt with under the open governance arrangement. If this route is taken, the DNOs would bring this issue forward under the normal review process of the CDCM in time for the implementation of the EDCM, alongside the other issues raised by Ofgem.

1.2 Network unavailability rebates

The DNOs’ reasons for not including the area of Network Unavailability Rates in the CDCM methodology document were due to the fact that these rebates are not related to Use of System revenue or Use of System charging, and therefore we felt that this area would be better covered in a separate statement from the suite of charging statement currently produced by the DNOs. Workstream 3 of the CMG had the standardisation of this statement within the scope of its deliverables.

If the network unavailability rebates are included within the UoS charging methodologies (CDCM and individual EHV), there is the potential for duplication and inconsistencies in the statements. Six DNOs would prefer Ofgem to reconsider this issue and allow DNOs to produce a separate statement, which in our view would help customers’ understanding.

1.3 Service models

We see no issue with addressing the concerns mentioned by Ofgem in their document. The two companies in question are currently in the process of revising the inputs to ensure commonality in this area. The DNOs confirm their commitment to follow the guidance in relation to preparation of Service Models.

2 Other points raised in the report

The following points were highlighted in the report, and identified as issues which should be addressed under the open governance arrangements. We see merits in providing the following comments.

2.1 Differentiation between “voltage of supply” and “voltage of connection” for allocating generation benefits

The reference to “voltage of supply” is used in the CDCM by design. The notion of “voltage of connection” is only relevant for the connection stage. Once the customer has been connected, what is relevant is the voltage at which units of electricity enter or leave the Distribution System.

For the majority of cases, the voltage of connection and the voltage of supply are the same. However, there are some cases where the connection works involve network extensions which include one or more voltage transformation levels. Take for instance a developer requesting an HV connection for a housing estate and building an LV extension to the network which, after completion, is adopted by the DNO: in this case the “point of connection” (for connection charging purposes) would be HV but once adopted, the voltage of supply to each individual customer (including any on site generator) would be LV. We believe that it is right to consider this hypothetical generator in the example as LV, for the purposes of determining the benefits they provide to the network.

The terms “voltage of connection” and “voltage of supply” do not exist in the DCUSA or the distribution licence. The terms “entry point” and “exit point” are used instead, and refer to the points where units of electricity enter (or exit) the Distribution System. We propose a pragmatic solution to aid clarity in this point would be to change the reference in the CDCM to make it consistent with the licence and the DCUSA.

2.2 Allocation of costs between fixed, unit and capacity charges

The report argues that the method of allocation of costs between tariff components is a deviation from Ofgem’s October decision document (paragraph 2.47 of the report). We disagree with this view: the October decision indicated that the precise allocation to tariff component was an area to be developed during the modelling stage. The CDCM has filled a gap in this area, as identified correctly in Table 1 of the consultation document.

In relation to the point raised in paragraph 2.48, for capacity charges and network-cost-related fixed charges, instead of starting with a £/kW/year measured by reference to system simultaneous maximum load, we start with a £/kW/year which refers to installed assets. We proxy the volume of assets at each network level by aggregate maximum demand at the relevant substations. This aggregate maximum demand is estimated by applying diversity allowances, cumulatively through to the GSP Group level, to system simultaneous maximum load. Thus the formula at paragraph 76 of the draft CDCM methodology includes, in the denominator, a diversity allowance which has the effect of lowering the £/kW/year used from the basic network level £/kW/year (which is relative to system simultaneous maximum load). The method is not, therefore, using a standing charge factor instead of a coincidence factor.

As a minor point, we would like to clarify that the analysis shown in paragraph 2.51 of the consultation states that the generation credits are based “almost entirely on [the generators’] export capacity”. The words “export capacity” should be changed by “unit rates”.

2.3 Separating the input fields for Other expenditure

We see no issue with addressing the point mentioned by Ofgem and separating the input fields as suggested.

We trust these comments are helpful. Please do not hesitate to contact the CMG should you have any further queries.

Yours sincerely,

The CMG, on behalf of:

CE Electric, Central Networks, EDF Energy Networks, Electricity North West, SP Energy Networks, SSE Power Distribution and Western Power Distribution.