Rachel Fletcher
Partner – Distribution
Office of Gas and Electricity Markets
9 Millbank
LONDON
SW1P 3GE

Email: rachel.fletcher@ofgem.gov.uk
distributionpolicy@ofgem.gov.uk

23 October 2009

Dear Rachel

Electricity Distribution Structure of Charges Project: DNOs' Proposals for a Common Methodology at Lower Voltages

This response is to the 'minded to approve' consultation published by Ofgem on 28 September 2009 with regard to the Common Distribution Charging Methodology (CDCM) for users connected to the HV and LV networks.

EDF Energy Networks welcomes the opportunity to respond to this consultation. This response is on behalf of EDF Energy Networks (EPN) plc, EDF Energy Networks (LPN) plc and EDF Energy Networks (SPN) plc.

As you are aware, we have fully supported the development of the CDCM for users connected at the lower voltage levels of the networks. We believe that implementing the methodology will be a major step forward as we make progress towards facilitating a lower carbon economy.

During the development of the CDCM, EDF Energy Networks has endeavoured to ensure that the methodology and tariff application are fit for purpose. On some occasions we have had to give up some of the tools that we use to give cost signals to customers, in order to align with the DNOs' majority decision. We still believe that these tools are more cost reflective and support the common governance arrangements as providing the best route for us to propose reinstating them into the charging methodology.

Ofgem's 'minded to' consultation includes a condition on the inclusion of the DG Network Unavailability Scheme within the CDCM. We consider that this condition does not form part of the CDCM because it forms part of the price control. We therefore request that Ofgem does not apply this condition.

In accommodating commonality, EDF Energy Networks and other DNOs will have to make significant changes to their billing systems. These changes will mean that some aspects of commonality cannot be implemented by April 2010 and accordingly, derogations have been sought. We ask Ofgem to be mindful that it is often those DNOs which have conceded the most that are making the biggest system changes, and we request that Ofgem take this into account when considering our derogation requests.

Further details are provided in Appendix 1 which sets out our responses to your questions from the consultation document.

If you have any questions regarding this letter, please do not hesitate to contact me on 01293 657853, or Oliver Day on 01293 577224.

Yours sincerely

Paul Measday
Regulation Manager

cc Ynon Gablinger

Appendix 1

EDF Energy Networks' general observations:

The DNOs and stakeholders involved in the development and submission of the CDCM should be congratulated for the levels of effort and progress that have been made during the year in which the CDCM was created. Significant discussions took place over numerous aspects and components of the methodology and tariff application.

The first submission of the CDCM generally makes some significant improvements to the calculation and format of charges. However, we feel that further cost reflectivity could have been achieved had more of EDF Energy Networks' current tariff features been retained. With this in mind, we have concerns about the removal of the following components:

Seasonal Unit Rates

Our current half-hourly (HH) metered tariffs have five time-bands which not only cover the time of day but also full annual seasonality. The CDCM stipulates that the three time-bands are applied all year. We do not believe that this constraint is appropriate or necessary. The removal of seasonal time-bands will penalise users whose consumption is outside the traditional peak times and will cause them to face unnecessarily higher annual charges. It also dilutes the peak signal that DNOs should be sending in order to avoid unnecessary network reinforcement.

Separate Profile Class (PC) 5–8 Tariffs

The CDCM has only one tariff for PC 5–8 customers. The Balancing and Settlement Code requires Suppliers to differentiate monthly billed customers into the four Profile Class 5 to 8 categories, based on their load factor. We also currently differentiate between our charges to these customers based on the load factor, using the profile class. We feel that this is an important, easily distinguishable feature for these users and should be continued in the CDCM.

Winter Day Capacity Requirement (WDR)

The CDCM has removed our ability to offer a price reduction to those customers whose maximum demand is in the summer and who therefore have a reduced capacity requirement at the time of winter system peak. This feature is very important to groups of customers such as farmers and the frozen goods sector, who can avoid using their capacity during the winter peak. They currently declare a lower 'winter day' capacity and then receive a reduction on the difference between their import capacity and their winter day capacity. We believe that this is a good signal to give in order to encourage demand side capacity management. However, we do observe that the impact of losing this feature on the customers' charges is slightly mitigated by lower overall capacity charges. The impact on EDF Energy Networks is that the customer now has no incentive to avoid using their agreed capacity at peak time. Such an impact may increase the need to reinforce networks.

Moving to a 20kV network

The standardisation of tariffs to suit the majority of DNOs in the CDCM does not allow any unique or innovative networks to be charged appropriately. While we understand the need to drive through commonality, we do feel that this may stifle innovative developments going forward. In central London we are installing a 20kV distribution network. The 20kV network, through having a higher capacity than the equivalent 11kV network, has a lower per unit cost. However, we will be restricted in our ability to encourage larger customers to invest in transferring their connections to the 20kV network if they see no benefit in lower use of system charges.

Responses to questions from the consultation document

Q1. Do you agree with our minded to positions given the arguments/analysis presented here and in the impact assessment? If not, why not?

EDF Energy Networks agrees with most of Ofgem's 'minded to' positions detailed in chapter 2, with the following observations:

- Commonality of the 500MW model

  While we appreciate that more can be done to specify the design guidance of the 500MW model, we feel that it is important that the models continue to reflect the regional differences encountered in each network area. An example of this is demonstrated in paragraph 2.11, where Ofgem notes the split of assets used at EHV in LPN (circa 3%) compared to CE areas (circa 20%). In areas of high load density the EHV network is typically skipped and network operators transform directly from 132kV to HV, thus completely alleviating a network level. An improving industry understanding of these differences may help to improve confidence in the application of these models.

- Treatment of replacement costs

  We agree with the exclusion of replacement costs.

- Split out operating expenditure in model for greater transparency

  We agree that having separate model inputs for direct costs, indirect costs and network rates (rather than the singular entry of 'other expenditure') will aid model transparency. We believe that this should be provided in the model.

- Generator charging

  We support the DNOs' improved method of applying generator charging (credits), which uses kWhs exported as a measure of the level of support to the network rather than a notional capacity value. However, while we can understand the rationale for applying one unit rate for HH metered intermittent generation, we feel that this may give out the wrong economic signal. We feel that a single unit rate may reward output when the output is not benefiting the network, especially at times of low demand. We would prefer to apply time-banded unit rates to all HH metered intermittent generators, both to aid consistency and to provide the correct economic signal. This issue also links to generation dominated networks. Moreover, the issue of there being only three rates means that generators operating at system peak do not receive the correct benefit.

- Voltage of supply versus voltage of connection

  The voltage of supply in the use of system methodology may in certain circumstances be different to the voltage of connection described in the connection charging methodology. However, the two terms are different and this is appropriate for each relevant document.

- Reactive power charges

  We support the economic need to model the impact of reactive power flows on the network. We believe that the approach submitted is a good starting point, however the method does not take into consideration the cost of increased network losses caused by customers with poor power factor. All customers should be incentivised to operate at as near to unity power factor as possible and to minimise their carbon footprint. We believe that reactive power charges should consider the cost of increased losses that poor power factor creates, with the higher charges then improving the business case for customers to install reactive compensation equipment. We presently operate a two-tier reactive charge method to give a better cost signal to those customers with the worst power factor.

- Allocation of costs between unit, fixed and capacity charges

  Ofgem has been sensibly pragmatic in accepting the methodology for allocating fixed and capacity charges. The route DNOs have chosen broadly follows existing allocations between fixed and capacity charges used in current methodologies. However, consideration in taking this forward should not just measure the percentage allocation between fixed and variable charges, as per Ofgem's analysis, but also the type and pattern of the end user. It is appropriate for the governance arrangements to progress this issue.

- Revenue matching

  We agree with Ofgem's 'minded to' decision to allow the method and consequential impact of revenue matching to be further addressed through open governance.

- IDNO charging

  At the time of writing this response, EDF Energy Networks is in discussion with Ofgem over concerns about the LDNO margins calculated from the CDCM methodology in our three DNO areas. As a consequence of these discussions, we have recalculated the LDNO prices using the latest Forecast Business Planning Questionnaire (FBPQ), including Electricity, Safety, Quality and Continuity Regulations (ESQCR) forecast expenditure. In our FBPQ submission we have placed most of our LV condition-based expenditure into the ESQCR table, because the driver for these costs is asset replacement due to safety rather than condition. We had not previously used ESQCR costs in the LDNO model.

  The addition of later FBPQ submission data and ESQCR data reduces LDNO charges in all three of our regions, increasing the LDNO margins. However, the model still calculates lower LDNO margins compared to other DNOs. The causes of the lower margins include a comparatively higher level of expenditure on EHV networks, a comparatively lower level of expenditure on LV networks due to very limited exposure to Consac cable replacement and, in LPN, no exposure to ESQCR overhead line expenditure. We will continue to work with Ofgem to ensure that our CDCM LDNO charges are calculated using data consistent with the approaches of the other DNOs.

  We agree with Ofgem's 'minded to' decision that the method needs to be further developed through the open governance arrangements.

- Service models

  We have now incorporated the additional cost of HV generation services into our model. Our recent submission of April 2010 illustrative charges, based on the published Distribution Cost Information, contains HV generator charges with applicable service model costs.

- Generator charging in generation dominated areas

  We agree that it would be inappropriate to reward generators for 'supporting' the network in generation dominated areas. We believe that this issue is better resolved through the open governance process, so that full industry participation can be achieved.

- Generator charging from 2010

  We agree with Ofgem's interpretation of the CDCM that the application of CDCM HV/LV use of system charges will apply to all HV/LV connected generators from April 2010.

- Network unavailability scheme

  We do not agree that the scope of the CDCM should be extended to incorporate the details and calculation of the network unavailability scheme. The scheme is not part of use of system allowed revenue and payments are made as a DNO penalty. The Distributed Generation Network Unavailability Scheme was introduced as part of the Distributed Generation incentive in DCPR4 and. as such, is a price control and not a CDCM matter. The price and calculation are agreed between the DNO and Ofgem, but if these are placed in the CDCM they can be changed using open governance and this places an increased risk on the DNO. Our preference is that this would be better placed as a separate notice alongside the DNOs' statements. While the current materiality of this rebate is small we are requesting Ofgem to remove this condition.

- Input data

  We note the need to work on improving the guidance and information provided on inputs to the model.

- Excess Capacity Charges

  We do not believe that the issue of excess capacity charges has been properly addressed in the CDCM and are disappointed that Ofgem did not apply a condition. Using the data provided by Central Networks, Ofgem has had an insight into how appropriate excess capacity charges will change customer behaviour and has previously indicated its keenness for DNOs to send appropriate charging signals. The appropriate method of calculating an excess capacity charge on a non-discounted basis has also been made to Ofgem. We request that Ofgem make inclusion of a non-discounted excess capacity charge a condition of approval.

Q2. Do you consider that any additional elements should be conditionally approved?

Other than the relevant areas mentioned in our response to question 1, we do not consider that any further elements should be conditionally approved. We feel that the CDCM as submitted is an acceptable base line for commonality of charging and tariff application. The common governance process provides a route for all stakeholders to bring forward their concerns and ideas for improving any aspect.

Q3. Do you consider any element of the methodology would warrant an overall vetoing of the DNOs' common methodology submission?

No, we do not consider that any element of the methodology would warrant a veto.

Q4. Are there any additional areas that you would like to flag as areas you consider warrant further work by the DNOs in the future?

We believe that it would aid clarity in the use of the CDCM if the version of the model was defined. As it currently stands, DNOs could drift from or make changes to the model while still arguably following the wording of the CDCM. We do not believe that this would be in the best interests of users and would urge that strict adherence to a defined version is administered though the governance process and, for the avoidance of doubt, that the version number is referenced in the methodology.

We have indicated at the start of this appendix, the areas where we believe our current cost reflectivity is being weakened, in the interest of commonality.

Another area of concern is the non-charging of de-energised connections. These customers usually have an expectation that the connection will remain available to them while not paying the associated fixed and availability charges.

We will look at bringing forward appropriate proposals for these areas under the common governance arrangements in due course.

EDF Energy Networks
October 2009