Electricity North West Limited

Electricity North West Limited
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Telephone: 01925 846999

11th February 2010

Dear Nicholas,

Re: Ofgem's Consultation on WPD's modification proposal (WPD/Wales/West/016) to introduce changes to its charging methodology at extra high voltage (EHV) level from 1st April 2010.

ENW have reviewed the WPD modification proposal and have a number of comments.

1. Precedent for EDCM

The WPD modification proposal contains a number of issues that are currently being considered as part of the new EDCM methodology. ENW is concerned that the approval of the modification proposal will set a precedent for the decision of many of these issues. It is important that the outcome of this modification proposal does not set a precedent in any way and that Workstream A and B continue to develop the EDCM methodology without undue influence from the WPD EHV modification proposal.

2. Capping

ENW believe that the need to introduce capping in the WPD proposal is a recognition that the LRIC methodology can produce charges that may be unlawful under competition law, and it is right for WPD to attempt to address this. The WPD modification proposal does not provide sufficient detail on how the cap is determined to allow for its full evaluation; however it appears that WPD has annuitised the asset costs over 40 years using a 5.6% cost of capital to determine the cap and divided by the capacity or current demand. WPD have highlighted the escalation of costs as the utilisation of the network increases and our analysis indicates that this method of capping will take effect at around 70% utilisation. For WPD, this has only impacted 15 out of 1316 branches as the WPD networks have low utilisation, which is supported by the network output information provided as part of DPCR5. However, for networks with a higher utilisation rate, the cap could apply to the majority of branches. A rough calculation of the ENW network shows that the cap would affect over 50% of network branches. If the capping methodology is used too much on a network, then clearly the capping methodology becomes the overriding methodology in setting the charges and effectively replaces the LRIC methodology which is specified in the Licence.

Given that this issue has been identified however, ENW are supportive of further investigation into the most appropriate way to address the issue of eliminating the very high prices that the LRIC method may produce. We are concerned that if LRIC produces charges that are significantly more than the cost of installing the assets, the charge could be considered anti-competitive.

If a cap is to be applied, it should represent the maximum expected cost of installing the assets from the perspective of a typical EHV customer as this is the alternative option available to these customers. We would expect EHV customers to use a lower annuity period and higher

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cost of capital than DNOs, which would produce a higher cap. Further work is need to determine these to establish an appropriate capping mechanism.

3. Shared Use Assets

The WPD modification proposes that joint use and sole use assets should be disregarded for Pre-2005 Distributed Generation which connected under deep connection charges, by excluding those branches that the reinforcement was applied to. This is on the basis of avoiding double counting payments that have already been made. However, LRIC is a forward looking cost model and determines a charge based on incrementing demand on the relevant branches. To exclude branches on the basis of the source of historic funding does not comply with the principles of forward looking charging, as being developed within the EDCM methodology.

We hope you find these comments useful. Please feel free to contact me directly on 01925 846 854 if you would like to discuss any of the points raised in this letter in more detail.

Yours sincerely,

Tony McEntee

Tony McEntee
Head of Commercial Policy