

Colette Schrier
Distribution Policy
The Office of Gas and Electricity
Markets
9 Millbank
LONDON
SW1P 3GE

Your ref:2/10

Our Ref: N/A

Date
11 February 2010

Contact / Extension
María Isabel Liendo
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Dear Colette,

Consultation on Western Power Distribution's (WPD) modification proposal (WPD/Wales/West/016) to introduce changes to its charging methodology at extra high voltage (EHV) level from April 2010. Ref: 2/10.

SP Energy Networks ('SPEN') welcomes the opportunity to comment on the issues raised in this consultation.

We would like to focus our response in one particular aspect of the modification proposal: the capping of LRIC prices to prevent the excessive charges resulting from the application of LRIC prices to parts of the networks that are highly utilised.

SPEN has highlighted this difficulty in a number of previous consultation responses, as well as at a number of charging forums for a number of years. We will not repeat here in detail the arguments raised elsewhere, Appendix 1 to this letter gives a list of sources that can be looked at for more information.

With their current modification proposal, WPD are acknowledging that LRIC charges can be excessive: they mention in their report that the "uncapped" annual LRIC charges can match or exceed the reinforcement charges and can therefore lead to inefficient economic decisions (to reinforce the network before reaching full utilisation). We can highlight a further risk: that of a legal challenge from a customer who considers the charges to be many times over any reasonable cost he is imposing to the network, and therefore considered to be discriminatory under competition law.

WPD's solution of capping the charges to an annuity value of the asset values of that branch does bring the charging signal more closely to what can be deemed to be a reasonable charge, and therefore we believe Ofgem should *not veto* the proposal.

We hope these comments are useful.

Yours sincerely,

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Appendix 1. Previous correspondence from SPEN in reference to the issue of excessive charges under Bath LRIC.

- 1. Response to Ofgem's report on the "benefits analysis" undertaken by Bath University. January 2006.**

<http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/13072-SP%20response.pdf>

- 2. Response to WPD's mod proposal to implement Bath LRIC model. December 2006**

<http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgMods/Documents1/16682-SP%20response%20Jan%2007.pdf>

- 3. Response to Ofgem's letter on "Delivering the Structure of Charges Project". April 2008.**

<http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/SP%20Energy%20Networks%20response.pdf>

- 4. Response to SPEN's mod proposal to implement the FCP "G3" methodology. June 2008.**

<http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgMods/Documents1/SPEN%20response%20to%208608.pdf>

- 5. Response to EDF's mod proposal to implement Bath LRIC model. July 2008.**

<http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgMods/Documents1/SPEN%20response.pdf>

- 6. Response to Ofgem's Decision letter on a Common Charging Methodology. August 2008.**

<http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/SPEN%20response%20for%20website.pdf>