

13 July 2010

WSB EDCM Boundary Consultation

We welcome the opportunity to respond to Ofgem's consultation on the EDCM/CDCM boundary. We address the particular questions raised in the consultation in the appendix to this letter.

Central Networks continues to support 'Option 2 – Raised Boundary'. This boundary is closely aligned with and reflective of the different network assets involved in providing use of system to two distinct groups of customers (EHV and HV) and, as such, we believe it is the most justifiable and carries least risk of discrimination complaints.

In some cases price differentials between CDCM and EDCM will be large, bringing significant risk that a customer on the 'wrong' side of the boundary will raise a legitimate discrimination complaint. We believe the Option 2 boundary is by far the 'cleanest' and least prone to such complaints. We would therefore be minded to object to any proposed licence modification aimed at implementing any other option.

A number of the relevant considerations are discussed and alternative solutions are presented in the consultation document. The mechanisms associated with six of the seven proposed solutions or variants (Options 1, 3, 4, 5, 5a and 6) entail the application of both charging methodologies – the EDCM and the CDCM – to different classes of customers connected to distribution networks at the same voltage. We view this to be inherently discriminatory and, as such, support the implementation of Option 2. Our thinking is set out below.

An aim of the EDCM is the facilitation of efficient expansion of DNOs' EHV networks and efficient load-related investment. The mechanisms associated with options 1, 3, 4, 5, 5a and 6 are centred on how customers are connected to primary substations and, in the case of Option 6, their authorised capacity). However, other classes of customers supplied from primary substations have an equal impact on reinforcement requirements at primary substations (and on

higher levels of the EHV network) compared to those customers that are metered at primary substations. The need for reinforcement of primary substations can be triggered regardless of whether this is due to:

- customers connected to (metered at) primary substation,
- customers supplied from primary substations via 'sole use' assets,
- customers supplied from primary substations via 'distribution' circuits, or
- any combination of the above.

Indeed, there are several primary substations across Central Networks' distribution networks that supply a combination of these classes of customers. An example of a Central Networks West 132/11kV substation that supplies 11kV customers via 'sole use' assets and 11kV customers connected directly to the substation is illustrated in Figure 1 and

Table 1, attached. Additionally, an example of a Central Network East 33/11kV substation that supplies 11kV customers via 'distribution' circuits and 11kV customers connected directly to the substation is illustrated in Figure 2 and

Table 1.

Implementation of any option, other than Option 2 – Raised Boundary, will result in the application of different charging methodologies to the customers listed in

Table 1 and illustrated in Figure 1 and Figure 2 and will result in discrimination between customers.

In terms of the factors for evaluating the options and trade-offs associated with various possible boundaries, set out at Ofgem's workshop on 28 June, we believe Option 2 also hits most of the important 'buttons'.

- **Commonality** – Option 2 is unique in ensuring commonality at each voltage level (i.e. CDCM for LV/HV and EDCM for EHV).
- **Cost-reflectivity** – Option 2 avoids the confusion around cost reflectivity associated with having more than one methodology at a voltage level (Which methodology is the more cost-reflective? Why, then, is that methodology not applied to all customers at that voltage?). Option 2 does however restrict the, arguably, more cost-reflective EDCM charges to EHV connected customers, only.
- **Minimising perverse incentives** – Option 2 avoids the possibility of customers within a voltage level seeking minor changes to their connection (e.g. re-locating the meter) in order to benefit from CDCM or EDCM, whichever may be the case. It would rightly remain open to customers to change their voltage of connection, but this would be likely to entail significant and costly changes to the connection.
- **Non-distortion of competition** – Option 2 creates a clear and level 'playing field' in terms of DUoS charging at each voltage level. Suppliers will be clear as to whether CDCM or EDCM applies to a particular customer simply by reference to their voltage of connection.
- **Customer impacts** – Option 2 (and most other options) entail impacts on some customers. Customer impacts may be significant in some cases, but we do not believe they should be a major factor in deciding on the boundary for the longer term. The risk of perpetuating discrimination is a much bigger factor than customer impacts which are, in any event, capable of mitigation.

Our conclusion is that a 'clean' voltage-based boundary is the only one that does not carry an inherent risk of discrimination and, as such, Option 2 – Raised Boundary is the only acceptable option. Implementation of any of any of the options in the consultation document (including Option 2) may spawn transitional issues which require mitigation, possibly through some form of transitional relief.

Transitional issues should not be a major factor when consideration is given to an appropriate and defensible boundary between the EDCM and CDCM for the longer term.

Yours sincerely,



Andrew Neves

Andrew Neves
Tariff and Income Manager

Appendix – responses to particular questions:

Chapter 2

Question 1: *We welcome views on any aspect of the options presented in this chapter, and seek to understand whether any additional options or issues should be considered.*

Sufficient issues and options have been considered

Question 2: *We seek views on whether 'sole use' assets should feature in the definition of the boundary.*

We do not believe that 'sole use' assets should feature in the definition of the boundary. Such assets are an integral part of the distribution network, and can change between sole and shared use in some circumstances. Any definition based on this would therefore be imprecise and subject to variability over time.

Question 3: *We welcome views on how customers subject to 'special' metering arrangements should be treated in the definition of the boundary.*

The important issue is not where the meter is, but where the operational and commercial boundary is. It is the location of the commercial boundary and not the location of the meter (if that's different) that should decide the applicable charging methodology.

Question 4: *We welcome views on how customers subject to 'special' settlement arrangements should be treated in the definition of the boundary.*

The important issue is where the operational and commercial boundary is. It is the location of the commercial boundary, and not any 'special' settlement arrangements, that should decide the applicable charging methodology.

Question 5: *We welcome views on how 20kV customers should be treated in the definition of the boundary.*

We do not currently have any 20kV customers. However, 20kV has traditionally been treated as HV, rather than EHV, and should remain so.

Chapter 3

Question 1: *What are your views on our suggested factors for considering the boundary options, and are any other factors relevant?*

These seem very comprehensive.

Question 2: *What are your views on the grounds and issues that should be taken into account in determining whether any potential discrimination can be objectively justified? What are your views as to whether discrimination occurs in respect of the options under consideration?*

If we are to discriminate between customers by having different methodologies we need a very clear rationale based on cost and a very clear dividing line. In our view the only dividing line that would be sufficiently clear is one based on voltage of connection.

Question 3: *We seek views on option 6 along with views on any of the hybrid approaches that respondents consider appropriate.*

We see no justification for a boundary based on capacity. Aside from the issue of discrimination, any boundary set in this way is likely to have a number of customers on either side of it that could effectively choose between CDCM and EDCM simply by adjusting their capacity to a small degree. There would also be the potential for ongoing difficulty with customers forced to switch between methodologies whenever their capacity changed for *legitimate* reasons.

Question 4: *We seek views on the role/treatment of 'sole use' assets in defining the CDCM/EDCM charging boundary and on metering and settlement issues that have been raised.*

We see no reason to differentiate between 'sole use' and 'shared use' assets when considering the boundary. What's important is the voltage at the boundary between the DNO's assets and the customer's assets. Sole use assets are DNO assets.

Question 5: *What issues are there around charging impacts? In relation to these are any specific measures required?*

We strongly support a voltage based boundary, but acknowledge that this could create significant tariff disturbance in a few cases. We would be comfortable with some form of transitional relief in such cases

Question 6: *In view of this chapter and the impact assessment in Appendix 3, what is your preferred option for the boundary, and why?*

We strongly support a 'clean', voltage based boundary, i.e. Option 2 – Raised Boundary

Chapter 4

Question 1: *We seek views on the next steps we have noted and the associated timescales.*

We note that the timescales are challenging

Question 2: *We seek views on whether the boundary should additionally change over time, for example in response to technological developments.*

It would be foolish to rule out further change altogether, but see no prospect of such change being appropriate in the short to medium term. We are also conscious of suppliers and customers desire for stability in respect of charging methodologies.

Figure 1: 132/11kV substation in CNW

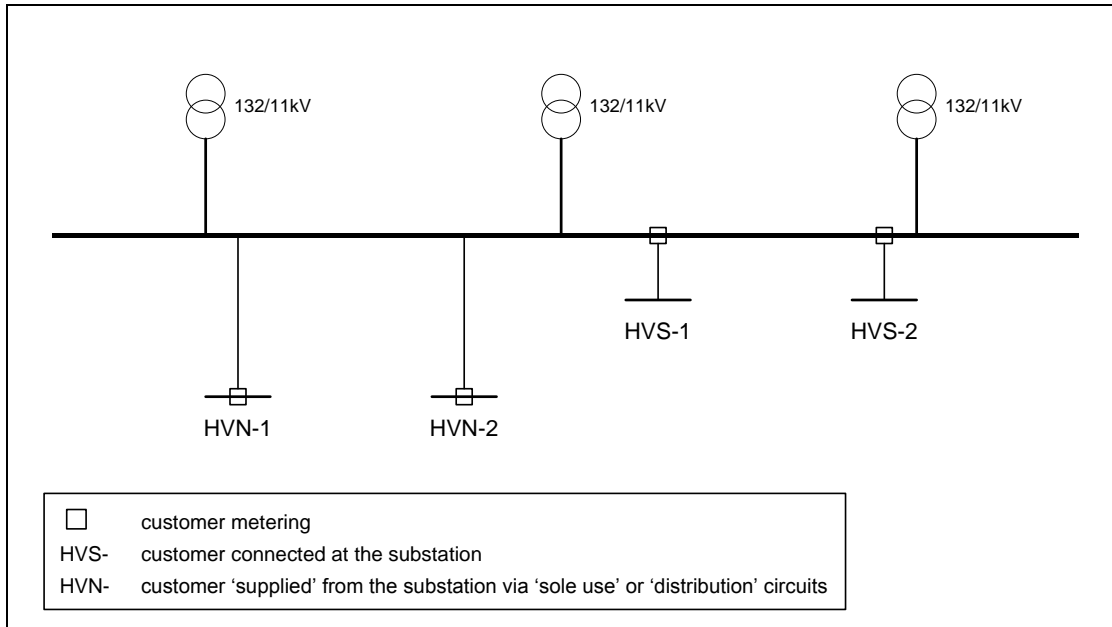


Figure 2: 33/11kV substation in CNE

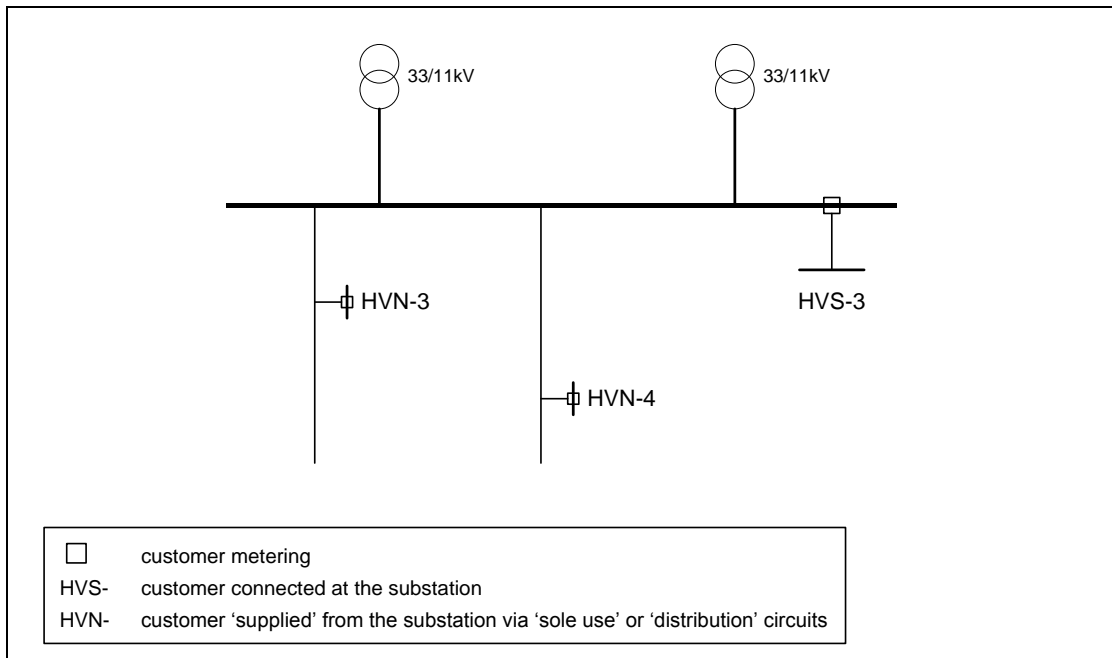


Table 1: Customer Details

Customer ID	Connectivity to Distribution Network	Location of Metering
HVS-1	at primary substation	primary substation
HVS-2	at primary substation	primary substation
HVS-3	at primary substation	primary substation
HVN-1	supplied via 'sole use' assets	customer premises
HVN-2	supplied via 'sole use' assets	customer premises
HVN-3	supplied via 'distribution' assets	customer premises
HVN-4	supplied via 'distribution' assets	customer premises