



CHEMICAL INDUSTRIES  
ASSOCIATION

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## **Electricity distribution charging boundary between higher (EDCM) and lower (CDCM) voltages – Ofgem Impact Assessment**

### ***Response from Chemical Industries Association***

The Chemical Industries Association<sup>1</sup> welcomes the chance to respond to this consultation. ***The proposed boundary changes could have a significant impact on our energy intensive membership; with some members highlighting substantial rises in distribution charges.***

Our response to this consultation echoes many of the comments made to the initial EDCM / CDCM boundary consultation conducted by the Energy Networks Association (ENA). In our response to this we stressed that the CIA was originally unaware that this consultation was taking place, it is also apparent that our members and their suppliers were also in the dark. We also highlighted that given the complex nature that it was up to the industry to engage early with end users and fully explain the detail, to allow energy consumers to feedback positively. We are glad this is now taking place through numerous workshops throughout the country and hope this sets a precedent for future work.

Before commenting on the more detailed nature of the consultation we would first like to remark on the potential charge increases if some boundary changes are made. Although there could be some winners with some proposed boundary changes, there is a significant amount more of potential losers. Looking at the examples in more detail, the magnitude of the changes do not inspire confidence in the fairness of either existing, or proposed charging methods. The potential rises are not 10%, 20%, 30% but in some cases (CE NEDL as an example) ***there could be up to eightfold increases for class B customers.*** At a time of economic recovery we would question a sudden increase in charges that are currently not transparent and will not become any clearer until September 2010 at the earliest. CIA analysis of Government consultations demonstrate that the cumulative impact of subsidies to support ambitious renewables targets could result in a 75% increase in wholesale electricity prices and a 40%

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<sup>1</sup> The CIA has in membership around 150 of the larger companies in the UK chemical and pharmaceutical industry, which has aggregate turnover in excess of £60bn and directly employs almost 200,000 highly skilled people. It is the only major sector to maintain a significant positive trade balance, typically registering a surplus of £5bn annually.

increase in wholesale gas prices by 2020. Further increases to electricity distribution charges will only exasperate the competitive position of UK industry. We feel it is unacceptable for businesses to face large percentage increases in charges with only 6 months notice. More time should be given to allow end users to budget ahead for. If current arrangements are deemed inadequate ***there must be proposals to ensure that new charges are phased in***, therefore limiting the potential damaging effect of eight fold price increases.

***We believe that options with the lowest risk of customer shocks from boundary issues should be prioritised.*** We also believe that options should take account of the historic legacy of customers ensuring that the definitions used in the past are as near consistent to that of the future.

Currently CDCM excludes certain designated properties that are treated on the same charging basis as premises connected at EHV. For this reason, these specific properties / sites were not consulted when the CDCM methodology was being produced. If options are take forward that move a customer from an historic site specific charge based on an EHV charging methodology to a charge based on HV/LV charging methodology. Then certain individuals will find themselves in a position were they are moved to CDCM without being part of any formal consultation process.

We are pleased that Ofgem have presented further options to the ENA's initial work. Of the initial ENA options presented the Optional Raised Boundary (ORB – option 3) option was highlighted as being more favorable. This allows affected consumers the option to choose the charging methodology and hence lessen any potential cost impact. Overall we support options that allow end consumers the ability to adapt and adjust as members are both expanding and downgrading plant in a continually changing environment. Of the new proposals presented by Ofgem (option 5, 5a and 6), option 5 allows the status quo and is favorable. Option 6 is more flexible and in line with our previous comments to ENA that there may be an over simplification and methods to expand criteria should be investigated. Therefore we feel that option 3, 5 & 6 should be taken forward to ensure there is minimal impact on end consumers.

As a final statement we would like to highlight that there is minimal transparency in the calculation of electricity distribution charges in sharp contrast to gas where distribution charges and hence overall cost can be easily found and calculate. We support the move to further transparency. We also note that there is significant potential for future volatility in electricity distribution charges. Future electricity distribution charges should be both transparent and consistent.

Following the general comments above please find more specific responses to the questions that the CIA feel we are best placed to answer;

### *Chapter Three*

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

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impact. Overall we support options that allow end consumers the ability to adapt and adjust as members are both expanding and downgrading plant in a continually changing environment. Of the new proposals presented by Ofgem (option 5, 5a and 6), option 5 allows the status quo and is favorable. Option 6 is more flexible and in line with our previous comments to ENA that there may be an over simplification and methods to expand criteria should be investigated. Therefore we feel that option 3, 5 & 6 should be taken forward to ensure there is minimal impact on end consumers.

*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?*

We believe that options with the lowest risk of customer shocks from boundary issues should be prioritised. We also believe that options should take account of the historic legacy of customers ensuring that the definitions used in the past are as near consistent to that of the future.

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

Option 6 is more flexible and in line with our previous comments to ENA that there may be an over simplification and methods to expand criteria should be investigated. Therefore we feel that option 3, 5 & 6 should be taken forward to ensure there is minimal impact on end consumers

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

Of the initial ENA options presented the Optional Raised Boundary (ORB – option 3) option was highlighted as being more favorable. This allows affected consumers the option to choose the charging methodology and hence lessen any potential cost impact. Overall we support options that allow end consumers the ability to adapt and adjust as members are both expanding and downgrading plant in a continually changing environment. Of the new proposals presented by Ofgem (option 5, 5a and 6), option 5 allows the status quo and is favorable. Option 6 is more flexible and in line with our previous comments to ENA that there may be an over simplification and methods to expand criteria should be investigated. Therefore we feel that option 3, 5 & 6 should be taken forward to ensure there is minimal impact on end consumers.

#### *Chapter Four*

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

We feel it is unacceptable for businesses to face large percentage increases in charges with only 6 months notice. More time should be given to allow end users to budget ahead for. If current arrangements are deemed inadequate there must be proposals to ensure that new charges are phased in, therefore limiting the potential damaging effect of eight fold price increases.