



THE SOCIETY OF MOTOR MANUFACTURERS AND TRADERS LIMITED

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**Ofgem consultation on Electricity distribution charging boundary
between higher (EDCM) and lower (CDCM) voltages**

Dear Chris

Thank you for the chance to input into this boundary issue and for the recent workshop on 28 June.

There has been a clear lack of transparency as to why the distribution use of service chargers are changing and perhaps more importantly what they are going to change to. The cost implications are very significant, and the timing of the changes is unwelcome at this point in the economic cycle and could harm the competitiveness of UK businesses competing in the global market place, like the automotive sector.

The Society of Motor Manufacturers and Traders (SMMT) is the trade association for automotive manufacturers in the UK. The automotive industry is a vital part of the UK economy with £51 billion turnover and £10 billion value added. With over 800,000 jobs dependent on the industry, it accounts for 65% of total manufacturing turnover and invests £1 billion each year in R&D. In the last ten years, huge strides have been made to reduce the environmental impact of its products throughout the life cycle. Improvements in production processes mean energy used to produce each vehicle is down 24%, water use is down 45% and 57% less waste enters landfill sites. Average tailpipe CO₂ emissions have also been reduced and are down 20% compared to 1999 levels.

Support of optional raised boundary

On the specific question of the boundary issue we do have some members who will be affected by proposed change in boundary. We would propose that given the limited numbers involved and the potentially large impacts on costs we would support the optional raised boundary approach. Some of our members are connected to the network via a dedicated line over 22kV, but metered at 11kV for technical convenience, others are classified as EDCM users, even though they have no lines/assets over 22kV.

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Members have found it very difficult to work out how the proposed changes will affect them, due to the lack of transparency in the proposed costs and also as the figures supplied by the DNOs have been revised several times.

Uncertainty in proposed price changes

Members have noted that they face considerable potential cost increases from the changes in the EDCM methodology. There is limited data on the cost of the switch from EDCM to CDCM, but we are told to expect higher costs. Members charged under the CDCM have already experienced substantial increases – with one member seeing their bill rise by over 25% or £500,000 per annum. Such an increase is very difficult to incorporate into business planning, and given low profit margins in the sector will directly impact on competitiveness.

Under EDCM members have been quoted as set to see costs rise by more than 125% or £800,000. This was later revised to a benefit of over £200,000. Changes in the proposed charges of over £1,000,000 make planning exceptionally difficult. It looks unlikely the DNOs will be able to provide firm figures on the impact of the changes for some time yet.

Within the charges the use of either of two pricing methodologies, FCP or LRIC, and then the huge (up to 90%) scaling charges make it impossible for sites to work out themselves the impact of the proposed changes and likely cost implications of switching from EDCM to CDCM. The fact that DNOs can use either pricing option and all have different scaling aspects to the charges makes it difficult to determine if there is consistency. Members have reporting price rises of almost 20% to over 125% being proposed.

Evaluating how the distribution charges will change over time is also difficult to tell, which again makes business planning difficult.

Concern over timing of the changes

Given the manufacturing sector is looking to help the UK economy grow and re-balance growth within the country, the timing of these proposed changes are unfortunate, especially as many sites look as though they will face cost increases.

UK based manufacturers and suppliers in the automotive sector are part of a global industry and face tough competition from abroad. Over 75% of what is built in the UK is exported and 85% of vehicles registered in the UK are imported. The UK plants will be competing with overseas plants within their own organisations for inward investment. Substantial rises in energy costs will affect the competitiveness of UK-based companies.

We also understand that the costs will change in part dependent on regional location. This could adversely affect members in certain areas, and influence locational investment decisions.

Support for phase in of any changes

Given the potentially large changes in costs involved SMMT would support the phase in of any boundary changes over a number of years. This would help business better plan and accommodate substantial changes in costs.

On a final note, we found the workshop very useful and gave much more of an insight into the issue. However, the workshop was poorly attended, especially from a customer point of view. We would question whether customers are fully aware of the proposed changes and how they would impact them. We would support a delay in any changes to the charges under the EDCM until wider customer feedback has been obtained.

We would welcome any further opportunity to discuss this issue and please contact us if you need any clarification or more information on the above points.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Matt', followed by a long horizontal line extending to the right.

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