

Chris Chow  
Ofgem  
Distribution Policy

BY EMAIL

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Dear Chris,

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

ScottishPower Energy Retail Ltd welcomes the opportunity to respond to the above consultation and provide our views on the setting of a boundary between the CDCM and EDCM. As with the introduction of the CDCM, ScottishPower supports the introduction of a common charging methodology for those customers who connect to the DNO's networks at extra high voltage (EHV). We believe that doing so will increase transparency and cost reflectivity across the various DNOs.

We have listed answers to the specific questions in the consultation listed in the annex accompanying this letter. This response is non-confidential and we are happy for our opinions to be shared.

The impact on DNOs and end users is considered at length within the paper but is minimal with regards to the impact on Suppliers. A number of options presented may mean that otherwise similar customers will be treated differently or will have the opportunity to change methodology over time. Rather than simplifying the charging methodology this introduces an element of uncertainty which leads to increased costs and potential for error. Recognising that there are licence obligations upon DNOs we therefore favour the simplest permanent option that meets these requirements. We believe this is met by the Raised Boundary option.

I hope you find these comments useful. If you require further information on anything within this response, please do not hesitate to contact me on the number above.

Yours sincerely

David McCrone  
Commercial Analyst

## **CHAPTER 2**

**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.**

We acknowledge the options that have been presented in the paper and note that each option will have some level of impact of all users regardless of whether they are charged under the CDCM or EDCM. We therefore believe that any solution should have a minimal impact on stakeholders while still meeting the requirements of the Licence obligations.

While the impact on DNOs has been discussed within the paper, there is little or no discussion on the financial impact on Suppliers. Under the option of a Lowered Boundary discussed in the paper, the largest number of customers would move to a site specific charging basis meaning this would have a large impact on a Supplier's administrative overheads, and therefore have the potential to adversely affect bill production and ultimately customer service. There is also the inconsistency with this option that different categories of Class B and Class C would be in different charging methodologies. This indicates that a customer could influence the choice of preferred charging methodology by selecting a particular metering arrangement irrespective of how that customer is connected to the DNOs network.

The option of a Raised Boundary provides the clearest distinction between the two methodologies and removes the potential for any difference in charging across the same customer class. A clear line defining the appropriate charging methodology would be the most straight-forward for stakeholders to implement and removes any potential for claims of discrimination between customer classes.

We note that in the initial consultation and at the ENA workshop on 28 June 2010, customers indicated a preference for an Optional Raised Boundary. We note that this suits existing customers by allowing them to continue current arrangements but would impact new customers from 1 April 2011. This could however be interpreted as discrimination and dis-incentivising future customers connecting to the network. The ultimate result of this may mean that customers, who were otherwise equal, would be charged under different methodologies. This introduces more complexity to the models, carries the potential need to make further IT investment, and introduces the possibility of pricing and billing errors.

The paper discusses other options which include other items such as authorised capacity as being defining factors in the choice of methodology. By doing so, this introduces more complexity into the model and has a perverse impact that could see customers adjusting authorised capacity to choose a preferential charging methodology. There is also the potential that as these factors change over time, a customer's appropriate methodology would also change. This increases complexity and cost for all stakeholders who would be affected by this.

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

We note Ofgem's definition that assets are inherently shared and therefore that the idea of a sole use asset in the context of selecting a charging methodology is inappropriate. We also note that a sole use asset may change to being shared over time. As the most

straight forward solution to implement is one which would not change over time, we would not favour the inclusion of sole use assets.

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

Where there is a difference between the voltage at the point of metering and that of connection, the charges for being connected to a DNOs network should be based on the voltage at the point of connection to that network. While the customer may have genuine reasons for a lower voltage at the point of metering, it does allow for potential accusations of a customer choosing a particular metering arrangement to determine the choice of charging methodology.

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

As above, it is noted that where there is a difference between the voltage at the point of metering and the point of connection, settlement would be based on the point of connection to the DNOs network.

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

If the proposed boundary was set to 20kV rather than 22kV, then the numbers of customer charged under the EDCM or CDCM would change. This would therefore have an impact on all tariffs across both methodologies. Without knowing the numbers of customers impacted and by what degree, we cannot comment.

### **CHAPTER 3**

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

We note the five factors selected by Ofgem as being appropriate for consideration; namely, commonality, cost reflectivity, facilitating competition, perverse incentives, and risk of undue discrimination. The impact on the end user of any increase in tariffs should also be considered. Given the current economic climate, it is therefore appropriate to also consider the cost of some businesses being unable to meet such increases in costs under the heading of cost reflectivity.

**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?**

As noted above we believe there are potential issues over discrimination with the Lowered Boundary and Optional Raised Boundary. We therefore believe the option which has least risk of undue discrimination is the option of a Raised Boundary.

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

Option 6 introduces the concept that authorised capacity can be used in conjunction with the voltage to determine the appropriate charging methodology. As stated above, this

introduces more complexity into the model and has a perverse impact that could see customers adjusting authorised capacity to choose a preferential charging methodology.

**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.**

As above, it is logical that the choice of charging methodology is based upon the point of connection to the DNOs network. By introducing other factors, it increases complexity and potential for discrimination or accusations of selecting certain arrangements for preferential charging.

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

As previously stated, the impact of any changes to the end users should be considered. The degree of change to some customer’s tariffs as set out in the paper is, in the majority of cases, very significant and the impact this will have on end users should be carefully considered.

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

Our preferred option is Option 2 – Raised Boundary. This offers the clearest distinction between whether a customer should be charged under the CDCM or EDCM. It affects the minimal number of customers while also providing the lowest opportunity for accusations of discrimination by DNOs or perversely influencing connections by customers.

A clear distinction, as provided by the Raised Boundary would be the simplest of the proposed changes to implement. It also future proofs the boundary against changes in authorised capacity or metering arrangements which if allowed through other options would result in increased costs and complexity to accommodate.

## **CHAPTER 4**

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

We note the proposed timescales for the implementation of the EDCM but have no further comments.

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

We have no comment to make but note the opportunity for any future changes should be available through open governance arrangements as with the CDCM.