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Our ref

Your ref

Date

12 July 2010

Dear Chris

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

Please see attached Western Power Distribution's response to the above consultation.

This states WPD's preference for a lowered boundary. The lower voltage busbar at EHV to HV substations is the lowest practical level that this can be achieved and both the proposed methods (LRIC and FCP) provide the data to calculate charges down to this level already.

We have also drawn Ofgem's attention to the very real impact on some economically significant customers of the price disturbances that are likely to arise from the other options.

If you have any queries please contact Nigel Turvey on 0117 9332435.

Yours sincerely



ALISON SLEIGHTHOLM
Regulatory & Government Affairs Manager

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.

No, the options appear comprehensive.

Question 2

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

No, as busbars that are initially sole use may well change to shared use later and this will cause either discrimination in treatment or significant unforeseeable price disturbance to the customers connected at these locations.

Question 3

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

The boundary should follow the primary asset ownership. i.e. if the customer owns the 33/11kV transformer then they are connected at 33kV. To do otherwise will create a significant incentive to move metering at significant cost for no benefit to any party.

Question 4

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

As our response to Q3.

Question 5

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

If our preferred decision to use a lowered boundary is made then this is not an issue.

Chapter 3:

Question 1:

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

Whilst not part of the Licence requirements and hence difficult for DNOs to factor into a decision, Ofgem should, under its wider duties, consider the price disturbance to customers of a change to the existing boundary. Some of the resulting price changes will test the viability of whether connected customers will remain in business.

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 the size of the connection is an important factor in whether individually costed tariffs are appropriate rather than an averaged tariff generally designed for smaller customers.

Question 3:

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

Option 6 is a compromise that would be acceptable to us combined with a lower boundary, although we believe that 10MVA maybe a bit high as a threshold and 5MVA may work better.

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 gave our response on these in response to qns 2 and 3 in Chapter 2.

Question 5:

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

There is significant impact on a number of customers, some of these are to the extent where it could affect the financial viability of these customers. Choosing a lower boundary would mitigate this effect.

Question 6:

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

Our preference is a lowered boundary, which could incorporate a size limit e.g 5MW. The reasons for this are

- that larger customers will be connected either at or near an EHV/HV substation for purely technical reasons of system capacity, voltage drop and system losses. Standard HV tariffs are designed to reflect the characteristics of smaller HV connected customers and hence we do not believe that these are appropriate,
- it is more efficient for the overall economy if the transformation between voltage levels is owned by the DNO as any spare capacity can be used by others. As the EDCM charges tend to be lower, the incentive on customers is to be connected at a higher voltage level. This creates a perverse incentive in terms of future development of the system, and
- when the structure of charges project was started, one objective was to provide locational cost reflective charges to as many customers as possible. The lower voltage busbar at EHV to HV substations is the lowest practical level that this can be achieved and both the proposed methods (LRIC and FCP) provide the data to calculate charges down to this level already.

Chapter 4

Question 1:

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

The timetable is very tight given that the EDCM submission by 1st September will need to align with the final boundary decision.

Question 2:

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

It would depend on the technical development. A more likely reason to review would be a decision to change the boundary between connection and use of system charges - if customers paid a deeper connection charge this could change what was reasonable as a definition of the boundary.