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Dear Chris,

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

SSE welcomes the opportunity to respond to Ofgem's impact assessment on the various charging boundary options that exist between EDCM and CDCM. We have attached our responses to the specific questions asked. However, at a high level, our preference is for Option 3 – a rising of the current boundary with a one-off choice for existing customers as to which methodology they wish to apply.

We believe Option 3 offers new customers a clear and common definition, whilst providing a pragmatic and proportionate option for existing customers. For some customers, an approach that does not consider current charges could result in those customers facing a significant step-change in prices – up to seven or eight times their current DUoS charges. We believe this introduces undue regulatory risk. Having identified a workable alternative, i.e. Option 3, we do not believe it is appropriate for those customers, no matter how little in number, to be subjected to this level of price change. There may be options to further limit the number of customers to which this one-off choice is given, but in any case, our preference is for the proposed Option 3.

We hope this is useful input, but should you wish to discuss any of the above, please do not hesitate to contact me.

Yours sincerely,

Malcolm J. Burns
Regulation Manager

ANNEX: SSE RESPONSE TO CONSULTATION QUESTIONS

CHAPTER 2

- 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.**

We believe all practical, feasible options have been presented and that a workable solution is within the options listed.

- 2. We seek views on whether ‘sole use’ assets should feature in the definition of the boundary.**

We agree that all assets are potentially shareable. As such, incorporating sole-use assets within the boundary definition may cause customers to move from the EDCM to the CDCM in the event that others connect to what was initially a sole-use asset. We believe a more practical approach is to limit the boundary definition to the voltage at which the customer is connected, i.e. the Metering Point.

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

We have legacy customers that are physically metered at 11 kV, but whose connection, i.e. their Metering Point, is at 132 kV. In these instances, adjustments are applied to the physical meter reading to reflect the higher voltage level. Consistent with our response to Q2 above, we therefore believe that these customers should remain on site-specific EDCM charges.

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

In line with our response to Q3, and the fact that for the purposes of settlement ELEXON also treats customers according to the voltage level at which they are connected rather than metered, we believe the charging methodology should align with the voltage at which customers are connected, i.e. the Metering Point.

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

Whilst we are not opposed to widening the EDCM *per se* to include 20 kV customers, the boundary has to be drawn somewhere. 22 kV has generally been accepted as an appropriate threshold and for simplicity we believe this is best retained.

CHAPTER 3

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

Whilst we agree that all of the factors listed are desirable in principle, we do not believe that these should be pursued exclusively. We believe that a balance needs to be struck between the principles listed and the potential for some customers to be exposed to a significant step change in their DUoS charges. Importantly, it is anticipated that only a very small number of customers will be highly impacted by a raised boundary. There may therefore be merit in limiting the one-off opportunity to elect between an EDCM-based charge and a CDCM-based one to just those handfuls of customers that are most affected. A materiality threshold (based on % change) could be relatively easily set from the work that has already been done to date to determine the likely impacts.

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?**

Our preferred approach is Option 3, the optional raised boundary. A step-change to Option 2, the raised boundary, would see existing class B customers move from site-specific charges to CDCM. For some, the price impact of this shift, as set out in the Impact Assessment, is significant and we do not believe prudent, particularly given the pressures of the current economic climate. Given that the number of customers for which this would have a large impact is relatively small, we believe Option 3 is more appropriate, pragmatic and proportionate. We do not believe that this option amounts to undue discrimination.

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

We would not support any approach that gave customers the ability to flit between EDCM and CDCM. Option 3, which gives existing customers the choice to make a one-off decision as to which methodology they will be subject to, whilst putting in place enduring clarity for all new customers, is our preferred approach.

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.**

Please refer to our Chapter 2 responses, Q2 to Q4.

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

Again, we believe Option 3 best addresses the potential charging impacts. This will ensure that existing customers are able to avoid the significant step changes that would otherwise apply. At the very least, if Ofgem opts for Option 2, we believe it is imperative that transitional arrangements are put in place.

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

Our preferred approach is Option 3, the optional raised boundary. Option 3 allows for the cleanest approach going forward and minimises the price disturbance for Class B customers.

CHAPTER 4

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

Whilst tight, these timescales are required if the 1 September deadline is to be met.

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

Whilst the appropriateness of the boundary definition should remain under review, it would be our (and we believe our customers’) preference that the boundary, as far as possible, does not change over time to ensure certainty over the charging methodology.

APPENDIX 3

- 1. What other material impact of a boundary change, as per the options presented in this document, on consumers should be taken into account in considering boundary options?**

We believe all relevant factors have been taken into account in the options presented.

- 2. We are interested to receive feedback from the IDNOs about the implications of this boundary issue to them, and how the concerns if any could be addressed.**

SSEPD owns and operates a number of out of area networks. From this perspective, the concerns are much the same as a large customer connecting to the host network. Any investment decisions on existing embedded networks have been based on assumed 'upstream' tariffs. A significant step change in these tariffs could undermine earlier investment decisions. As an out of area operator we would therefore want to ensure, much as is being proposed under Option 3 for existing customers, that we had the choice of whether or not to move to a different charging methodology.