

CARDIFF POWER

Rachel Fletcher,
Partner, Distribution,
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Distributionpolicy@ofgem.gov.uk

25th August 2010

Dear Rachel,

Re: Consultation on revised submission and implementation dates for the EHV Distribution Charging Methodology

Cardiff Power Limited (Cardiff Power) welcomes the opportunity to comment upon Ofgem's proposed revised timeline as detailed in your letter of 20th August 2010 for introduction of common distribution charging methodologies at EHV voltage levels. This response is not confidential.

Cardiff Power also commented extensively upon the earlier Energy Networks Association's (ENA's) consultation regarding EHV Distribution Charging Methodologies (EDCM). These comments highlighted a number of major concerns regarding the proposals as detailed in the ENA's June Consultation and as explained in subsequent DNO information sessions. I attach a copy of our response to the ENA Consultation for your reference.

Our major concerns with the EDCM methods as presented by the ENA include:

- Lack of visible justification of proposed changes or the underlying reasons for the license condition which requires these methodologies to be introduced;
- Massive step increases in tariffs for major customers that mean such businesses may no longer be viable;
- Generic instability in charges that are outside the control of the customers concerned – with resulting adverse effect on businesses;
- Significant differences in charges for some customers depending on whether LRIC or FCP methods are adopted by a particular DNO. This implies that neither method can be regarded as cost reflective or reasonably justified;
- The fact that the proposed “locational” signals appear inappropriate given that most demand and generation connection locations are effectively fixed for many good reasons (including historic) other than Distribution System charges. Opportunity for major businesses to respond to proposed “locational” signals is therefore at best extremely limited;
- Perverse charge variations (including increases) that can occur for existing customers as a result of connection of new customers or DNO driven network changes;
- Limited if any recognition that demand and generation projects are often matched to existing network capacity. This means that schemes designed to make efficient use of assets are inherently penalised by the new methods as additional connections

cannot be accommodated without major reinforcement. This itself is a perverse result and is contrary to license conditions to develop economic and efficient networks;

- Complex and time consuming nature of charge calculations and resulting lack of transparency to end users

In summary Cardiff Power is opposed to the introduction of the proposed methodologies in their present form. It is particularly concerning that the methodologies, as presented in the ENA Consultation, result in massive increases in charges to numerous demand and generation connections with consequential impacts likely on viability of these connections and associated businesses. Equally the methodologies suggest that charges could be subject to perverse changes over time and in some cases high volatility – with large variations arising from future network changes and / or demand or generation site connections or closures. Both of these consequences appear highly undesirable for the UK economy especially in the present financial climate.

Cardiff Power recommends that a wider review of the distribution charging area should be carried out as a matter of urgency to address the fundamental issues raised herein. In particular the impact on customer charges is such that there appears little if any justifiable case for the underlying changes made to license conditions which are driving these methodologies. It appears that a more balanced means of determining distribution charges to ensure stable, transparent and consistent pricing signals is needed. This would also be in the best interests of the UK as a whole – and a fundamental re-examination of the entire issue therefore seems the best way forward.

In view of the above Cardiff Power would support a delay in the proposed timeline for EDCM and is therefore in favour of the suggested formal derogation. However we have reservations that the time extension proposed is sufficient to address the fundamental issues and believe that a longer delay is more likely needed. The duration of the delay should therefore be subject to re-evaluation as appropriate in due course.

Any additional time should be used to undertake a more wide ranging review of the entire issue given that the associated license condition appears to be resulting in numerous adverse unintended consequences.

I trust this response is understandable however if you require clarification of any of the points made please let me know.

Yours sincerely,



Dafydd Rickard
Technical Director
Cardiff Power Limited

Attachments

Cardiff Power Response to ENA Consultation on EDCM dated 16th July 2010