

Rachel Fletcher
Ofgem

26 August 2010

Dear Rachel,

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

Consultation pursuant to standard licence conditions (SLC) 50A.38 of the electricity distribution licence in relation to proposals for the Authority issuing a derogation against licensees' obligations in Part C of SLC 50A

The EDCM has reached a position where it is fit for submission as required by the DNOs licences, but further development and additional stakeholder communication would be beneficial in terms of the overall acceptability and likely effectiveness of the methodology. We therefore support your proposal to defer implementation in order to accommodate further development and communication, and to achieve this by derogation against our relevant licence obligations.

Recent developments have substantially improved the EDCM overall, and as a result of this prices are significantly different from those set out in the DNOs' June consultation. It would be beneficial if DNOs had time to further develop the methodology and to engage with customers. In addition to these traditional EHV customers, following the recent boundary decision we and several other DNOs are in the process of identifying HV 'substation' customers for inclusion in the EDCM. Prices for these customers were not included in the consultation and many are probably unaware that they will transfer to the EDCM. This group of customers is quite large and new to the world of site-specific charging. It will be particularly important that DNOs engage with these customers individually.

While we support deferral for the reasons outlined above, we are concerned that the proposed October 2011 implementation date will not allow sufficient time for customers to understand the new charges and take account of these in their business plans. In many cases customers will wish to reduce or re-schedule demand in anticipation of the new price messages, and such behaviour is the very thing the EDCM seeks to encourage. We must allow sufficient time for customers to modify their business plans and their behaviour ahead of implementation.

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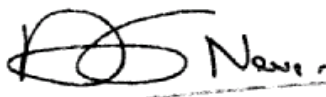
On the assumption that implementation is deferred, the activities we envisage during the coming months include – securing additional economic opinion around the issues of scaling and justification of EDCM charges, further development of the methodology, preparing a meaningful consultation, allowing sufficient time for stakeholders to respond, analysing and taking account of responses, modifying the methodology and re-modelling prices, communicating these changes and their impacts to stakeholders and preparing and submitting the relevant documents and supporting data to Ofgem.

We are concerned that the February 2011 deadline proposed for submission may not allow sufficient time for the further development and communication activities outlined above. It is very easy to construct a reasonable timeline for these activities which significantly exceeds the five months envisaged in your proposal. My very rough attempt to do this runs to the end of March 2011, without any buffer or contingency. DNO and stakeholder time during this period will also be taken up by the publication of indicative tariffs and by the Christmas period, effectively taking perhaps three weeks out of December. Given this, and the time needed to engage properly with an expanded group of customers, the timeline leading up to the proposed February submission looks too tight and, in our view, a submission date around May or June 2011 would be more appropriate.

In the light of the above we would suggest moving the implementation date to 1 April 2012, and delaying the submission date by about three months. This would allow all of the above to be done in a comprehensive way. Crucially, it would also ensure that DNOs have time to engage fully with affected customers once illustrative prices are more firm – after the consultation and before final submission – and that customers have adequate time to plan for and respond to price signals ahead of implementation.

I would be happy to discuss any of the above with you, and to share details of my rough timeline if this would be helpful. This timeline will also form the basis of some of the discussions between the DNOs and Ofgem at next Tuesday's meeting.

Yours sincerely,



Andrew Neves

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Tariff and Income Manager