



Rachel Fletcher
Partner Distribution
Ofgem
9 Millbank
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26 August 2010

Dear Rachel

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

The contents of this response have been discussed with the members of our monthly Energy Supplier Forum¹. This letter does not purport to represent a view from the smaller suppliers, but the arguments set out here are supported by many of the individual members. Members will be submitting their own responses to this consultation.

The arguments set out in the consultation letter for the proposal to permit DNOs to submit final versions of the EDCM by 1 February 2011, appear legitimate—particularly as indicative charges have changed “dramatically” over the last couple of months. It is right to identify the need for suppliers to be further consulted prior to firm proposals being submitted to the regulator.

It is suppliers that will face the reputational and business risk associated with uncertainty surrounding future distribution charges (despite having no control over the charges themselves). Therefore it is essential that they receive adequate advance notice of new charges, well before implementation, so they can communicate likely changes to customers. This is principally relevant for EHV customers, where contractual relations are generally more complex than those at lower voltages.

As we noted in our response to the CDCM consultation in November 2009, the introduction of the common charging methodologies for LV/ HV customers caused significant disturbance for suppliers who were unable to fully assimilate changes into contract in time for new charges being introduced on 1 April 2010 because:

- DNOs were themselves still getting to grips with the new methodologies, resulting in repeated publication of indicative charges (that often did not converge towards the final charges, but bounced around); and

¹ The Energy Supplier Forum is a Cornwall Energy hosted monthly meeting that brings together many of the smaller energy retailers in the market to discuss pertinent regulation and policy issues. More information here: <http://www.es-net.org.uk/>

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- once introduced many DNOs were actually provided derogations, for a number of reasons, that means that distribution charges for all LV/ HV customers will only be based on the CDCM from October this year.

Allowing more time to consult and finalise proposals should therefore reduce the possibility for more surprises late in the day and preclude the need for derogations. Publication of indicative charges that repeatedly change are of no use to suppliers.

Attempting to draw up contracts for new customers will need to include the new rates in advance of execution, and this will not be possible if final charges are known only a matter of weeks before implementation—as was the case for the CDCM. We therefore also support delay to the implementation date.

However the introduction of the EDCM along the timescales proposed in the consultation is likely to result in suppliers again facing significant issues especially given the proposed mid-year implementation.

Changes to EHV charges could necessitate a rebalancing of charges with LV/ HV customers, especially given the proposed boundary changes between the two, leading to a risk of wholesale change for all distribution tariffs. In effect this could mean that the LV/ HV charges to be published at the end of this year may only apply for six months. If so this could cause significant unnecessary disruption in the supply market.

For this reason implementation of new charges should be delayed until the start of the charging year in April 2012 (but with DNOs committed to finalise the EDCM itself by 1 February 2011). This would allow more time for all DNOs to ensure their systems are ready for the changes, and so avoid derogations, and ensure that firm indicative charges could be published with CDCM charges in December 2011.

This approach would also ensure that suppliers and customers could complete the annual contract round in October 2011 without the hindrance of uncertain network costs; allow suppliers to ensure billing system updates are introduced; and give sufficient advance notice to customers of likely charge changes to be introduced in April 2012 to enable them to account for any changes, which in some areas are likely to be significant.

Yours sincerely,

A handwritten signature in blue ink that reads "Nigel Cornwall". The signature is written in a cursive style and is positioned above a long, thin horizontal line that tapers to a point on the right side.

Nigel Cornwall