

Rachel Fletcher
Ofgem
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By email only to distributionpolicy@ofgem.gov.uk

26 August 2010

Dear Rachel

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

Consultation pursuant to standard licence condition (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

Thank you for the opportunity to comment on the above consultation dated both 20 and 23 August 2010. This response should be regarded as a consolidated response on behalf of EDF Energy Networks' four distribution licence holding companies – EDF Energy Networks (EPN) plc, EDF Energy Networks (LPN) plc, EDF Energy Networks (SPN) plc, and EDF Energy (IDNO) Ltd. For convenience, the four licensees are collectively referred to as "EDF Energy" throughout.

EDF Energy along with the distribution network operators, as part of the Common Methodology Group (CMG), and other industry stakeholders including Ofgem, have been working on developing a common EHV Distribution Charging Methodology (EDCM) that meets the requirements and specification set out by Ofgem in its July 2009 decision document¹ as determined in Licence Condition 50A.12. This development work is on target to deliver the EDCM, in a form which we consider is capable of being approved by the Authority, by the 1 September 2010 deadline.

We are disappointed that Ofgem has taken the view, especially at such a late stage of the project, that the EDCM requires additional time to further develop the methodology and to communicate the outcome developments between 18 June and the present time. While we accept that some customers are not familiar with the content of the submission, and that it is always possible to consult more, it was always intended in the CMG plans that the EDCM would continue to be developed after our consultation, taking into account any feedback. The plan (which Ofgem did not raise direct objections to) then required this "improved" EDCM to be submitted to Ofgem prior to conducting further industry consultation, as it had always been Ofgem's intention to conduct a final consultation as part of its decision making process. This plan was communicated to industry stakeholders as part of our June consultation.

¹ Delivering the electricity distribution structure of charges project: decision on extra high voltage charging and governance arrangements. Ofgem Ref: 90/09

We have concerns over the price disturbance that some customers will face but we do not believe that an extension to the deadline will solve these issues, as Ofgem's specification for the new methodology is a significant departure from existing methodologies. Significant changes are therefore likely and any change to a customer's charge is as much a reflection of the starting position of their current charge as to whether the new charges are appropriate. Furthermore, a delay to the implementation will put on hold the increase in charges to some customers but will also put on hold the decrease in charges that other customers would benefit from. This only adds to the uncertainty that customers are facing by delaying a change in methodology that Ofgem is committed to implement.

We accept Ofgem's concern over the scaling of charges. However, it should be noted that 25 demand, four exit charge and nine generation scaling options have been considered during the development process. This element of the methodology has been debated more than any other component and we struggle to see how much further this can be developed within the additional timescales and without challenging Ofgem's underlying methodology principles, including the use of the fixed adder scaling approach.

Overall we believe that the methodology developed to date is fundamentally fit for purpose and feel that Ofgem should not delay the submission or implementation of the methodology. On implementation of the current proposals, we understand that the majority of EDCM users will see reductions in their charges across all but one DNO group and this will be welcomed by those users. Importantly, the governance process following approval will afford stakeholders the opportunity to bring forward change proposals where they can identify that improvements can be made.

EDF Energy has contacted the relevant demand and generation customers within its distribution area to make them aware of Ofgem's consultation, and has taken the opportunity to provide them with the illustrative charges that result from the 'Option 25T3G6' EDCM models that it will submit next week, should Ofgem determine not to delay implementation. In either eventuality we will be updating customers on progress in early September and inviting them to our third EDCM stakeholder workshop, which we are planning to hold in week commencing 18 October.

If implementation is delayed, we are concerned that a mid-year implementation could cause problems for price change volatility for both CDCM and EDCM customers. DNOs will be preparing their April 2011 indicative charges in December 2010, based on either existing or development EHV revenues, and then potentially revising the final charges in February, based on the 1 February submission EDCM revenue share. The additional complication is that customers who migrate to EDCM on implementation because of the boundary change will be charged under the CDCM between April 2011 and September 2011, and charged under the EDCM between October 2011 and March 2012. Therefore, while a delay is not our preference, we feel that a mid-year implementation may not be appropriate for a change of this magnitude. Therefore, if a delay is required, April 2012 may be more appropriate.



We trust you will appreciate that whichever way you decide to instruct DNOs, EDF Energy is committed to working with all DNOs and stakeholders to deliver the EDCM project and will work to the timescales Ofgem and DNOs agree upon. If we can be of any further assistance or if you have any queries, please do not hesitate to contact Oliver Day on 01293 657880 or Jonathan Purdy on 07875 113017.

Yours sincerely

Paul Measday
Regulation Manager, EDF Energy Networks