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(by email)

Your ref

Our Ref

Date 26 August 2010

Contact / Extension

Jim McOmish

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Dear Colette

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*)

I am writing on behalf of SP Energy Networks (SPEN) representing licensed electricity distribution businesses SP Distribution Ltd and SP Manweb plc in response to Ofgem's consultation on its minded to position proposing a 6 month delay to EDCM implementation.

Companies have invested significant resource in this project throughout the last 2 years, in order to be ready to submit the EDCM proposals as required by our Licence. The importance of this requirement has been regularly communicated to DNO CEOs by Steve Smith.

It is therefore disappointing that a delay to implementation is being proposed, as we understood that the project, supported by Ofgem, had delivered an EDCM package that has the backing of the majority of DNOs.

One particular stumbling block that seems to contribute to this delay relates to agreement on an appropriate demand scaling option. As far as we are aware all but one group have agreed to implement a scaling option recommended by the EDCM project, which is the result of significant and extensive debate. We are concerned that extension of the deadline creates an opportunity to undermine the good progress that has been made in this regard, particularly as the alternative preferred by the objecting party will lead to suboptimal economic outcomes. As a further alternative the objecting party has also suggested the industry adopt of a number of scaling options which is clearly contrary to the principles of a common methodology, and we do not support.

We are concerned by our previous experiences surrounding Ofgem's support of the LRIC methodology, though unrelated to this specific issue, that an extension opens up a debate that is not in the interests of our connected customers.

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We do however see some benefits from the delay in implementation, relating to further customer engagement and understanding, although this presumes that Ofgem and DNOs ensure that the additional time is not used up unnecessarily refining the baseline EDCM model. Refinements must be targeted and focused on specific concerns and delivered in relatively short timescales.

Our customers clearly communicated at our stakeholder events that they would appreciate additional time to understand the EDCM and to plan for its implementation, resulting charge disturbances and to better understand how their behaviour can affect their charges.

However, the proposal for a six month delay raises new implementation concerns. This includes a congested timeline for communicating price and methodology changes to customers, and will dictate a mid-year price change for all DNO customers (EHV through to domestic) that will result in material price disturbances in 1st October 2011. This will affect business customers existing plans and budgets and may cause further consternation amongst our customers. The proposal also retains compressed timelines for customers to respond to Ofgems consultation, and very little time for any critical concerns arising through this to be addressed.

It is important to recognise that the EDCM model represents a step forward for all DNOs EHV charging methodologies, therefore some price disturbance is inevitable, this must be recognised, communicated and solutions developed to allow customers to manage this ahead of implementation.

Ofgem Minded to proposal:

Oct 2010	Consultation on baseline
Dec 2010	Notice of indicative prices for April 2011
Feb 2011	Submission of EDCM methodology including full year price impacts
Feb 2011	Notice of final prices for April 2011
March 2011	Ofgem consultation on EDCM
April 2011	Price change
May 2011	Ofgem decision following consultation
June 2011	Indicative prices for Oct 2011
August 2011	Notice of final prices for Oct 2011
Oct 2011	Price change

The CDCM open governance arrangements will also take effect in this period (October 2010) which will create conflicting demands on the time of industry experts.

If the EDCM project is to be delayed, we would suggest that Ofgem take the opportunity to leverage greater understanding and benefits for our customers by following a more extended implementation timeline, such as:

SPEN suggested timeline:

Oct 2010	Consultation on baseline
Dec 2010	Indicative prices for April 2011
Feb 2010	Final prices for April 2011
March 2011	Submission of EDCM methodology including full year price impacts
April 2011	Ofgem consultation on EDCM
June 2011	Ofgem decision following consultation
July 2011	Required changes incorporated by DNOs
Aug/Sept 11	Customer communication of implementation and probable price disturbances
Dec 2011	Indicative prices for April 2012

Interaction with EHV boundary decision / Licence changes

Ofgem's recent EHV boundary decision, will require the transfer of up to 300 of our HV customers to the EHV charging methodology. SPEN requested and Ofgem provided assurances regarding implementation and timing of incorporation into the EDCM, in order to allow companies to manage the logistical challenge that this decision presented. Specifically these customers did not need to be included in the September 2010 EDCM submission.

The proposed delay in EDCM implementation would allow SPEN to fully capture the customers affected, in order to include these into the modeling and prices prior to additional customer consultations and additional communication targeted at this customer group. SPEN expect that we will be able to incorporate these customers into our modeling by the end of September 2010, for consultation and communication in October, although verification site visits will continue for a number of months.

Two consequences of an EDCM implementation delay are:

- Further changes will be required to the EHV boundary Licence conditions to avoid unnecessary customer disruption in the intervening period;
- The opportunity will have presented for the industry to explore and implement a more sophisticated approach to the EHV boundary definition.

We have provided more detail on these points in our response to the associated formal Licence change consultation. ***A copy of this letter is attached.***

Conclusion

Given this project has been a number of years in delivery, and given the correspondence we have received from Ofgem over this period, our preference is for the EDCM project to progress as planned, subject to Ofgem's continued assurances regarding late inclusion of the customers affected by the EHV boundary decision.

However, recognising the significant changes to the EDCM proposals over recent months (including scaling and EHV boundary), if the consensus view point is to delay then we will embrace the opportunity provided to enhance the EDCM implementation, including:

- If the project is managed effectively, the additional engagement and information that this additional time enables should be highly useful to our customers;
- The opportunity to refine the EDCM methodology to deal with some of the undesirable outcomes (e.g. arising from the simplistic definition of EHV boundary);

Finally, we believe that a simple six month delay will lead to unnecessary mid-year complexity, price volatility and uncertainty for customers. There are clear additional customer benefits to be derived from extending the DNO methodology submission deadline by 6 or 7 months, but the implementation of EDCM by 12 months to 1 April 2012.

Should you have any questions regarding this letter please do not hesitate to contact me at the number above

Yours sincerely



Jim McOmish, Distribution Policy Manager

(Attachment: SPEN response to Collective Licence Modification proposal ref 92/10)