

Chris Chow  
Office of Gas and Electricity Markets  
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Monday 16 August 2010

**Collective Licence Modification Proposal ref. 92/10**

Dear Chris

This letter sets out the view of Central Networks in response to Ofgem's Collective Licence Modification Proposal with respect to the new distribution charging boundary rule for calculating use of system charges. Central Networks has already set out its view that a raised boundary was the most appropriate way to separate customers charged under the EDCM from those charged under the CDCM in its response to the consultation dated 15/06/2010.

Whilst Ofgem have decided to standardise the charging methodology boundary at the lowered boundary option, we continue to believe this decision creates a significant risk that HV customers on the 'wrong' side of the boundary will raise potentially legitimate complaints of discrimination. At a raised boundary there would have been a significant gap in network characteristics to define the applicability of the two charging methodologies. This gap doesn't exist with the lower boundary definition as we illustrated in our response dated 13/07/2010.

We are currently in the process of identifying customers that would be affected by this licence change. As you are aware, in our case, these will overwhelmingly be customers transferring from CDCM to EDCM, and many of these are likely to benefit from this boundary change. Many materially similar customers (and in some instances neighbouring customers that will be operating in the same industry) will, however, not transfer under such a definition i.e. those connected directly but metered at their premises; large customers embedded within the HV network, etc.

High Voltage customers saw large increases in charges under CDCM in April 2010, driven by the new methodology in combination with DPCR5, and are likely to see

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further significant increases in April 2011. Taken together these increases may average 40% or more across the country. Whilst these HV customers may still see improvements from managing their consumption under the CDCM at peak times it will be difficult for them to see neighbouring HV customers transferring to the EDCM and enjoying what look like being very significant reductions in charges. We would ask Ofgem to take such issues into consideration in the current work to find ways of tackling high prices coming from the LRIC model as any solutions that involve reducing the EDCM revenue pot may well exacerbate the DUoS charge differential between HV customers and lowered boundary EDCM customers.

Given this late change, we believe there should be sufficient time allowed for identification, communication and notice before customers move between methodologies. Whilst we are expediting the identification of affected customers, it may be appropriate to have an extended period for those customers negatively impacted before they move between methodologies. This would also allow customers who believe they should be in a different methodology to the one to which they have been allocated to challenge or indeed plan or develop alternative operating arrangements to manage the impact of the change.

I hope these few comments are helpful to you.

Yours sincerely,

  
A handwritten signature in black ink, appearing to read 'Andrew Neves', is written over a horizontal line that extends to the left and then curves downwards.

Andrew Neves  
Tariff and Income Manager