

4th July 2011
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Dear Sirs,

EDCM – Consultation on DNO proposals of April 2011

Thank you for giving consumers a final opportunity to comment in detail on the methodologies being proposed by the Distributors for Extra High Voltage distribution charging from April 2012.

BOC is pleased that a further period has been allowed for reflection and consideration, and though many of its concerns around LRIC and FCP remain, the revised methodology presented by the DNOs is much more acceptable than earlier efforts. It remains, however, less than transparent, and BOC looks to OFGEM to reduce the barriers to having the models made accessible.

Further to my letter of the 24th June, I attach a more detailed response on the issues raised. In particular, BOC would like OFGEM to keep the model stable for a reasonable period (perhaps whilst the outliers with large increases are tapered in) and to resist the inevitable clamour for minor self-interested tweaking which will otherwise clog up code reviews for little communal benefit.

Please call the undersigned with any questions.

Yours faithfully



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BOC Comments on DNO's EDCM proposals OFGEM ref 67/11

4th July 2011

Comments

Supports

- 1 the Ofgem purpose behind the EDCM review "to contain the amount of new investment that customers have to pay for", "to ensure that the cost ... is allocated fairly" and that "rewards are available for network users who manage their demand patterns to avoid ... peak times".
- 2 under Impact... "the ongoing stability of charges is important to customers, as it helps to reduce risk."
- 3 the philosophy that charging methodology be "common across DNOs"
- 4 the logical decision to unbundle (1.14) pre-2005 DG compensation
- 5 the underlying criteria for charging (2.8), namely import capacity, peak load, value of assets used and demand side services
- 6 the intent to require DNOs (2.52) to provide customers with a 'what-if' model to help them rationalise their charges (see point XXX below).

Notes, however,

- 7 that Tables 3.3 & 3.5 show as National Averages the arithmetic averages of the 14 (different sized) DNOs. This uncharacteristic mathematical *faux-pas* might be corrected in the final report ?
- 8 that no mention is made in the Introduction of the delay in EDCM implementation from April 11 to April 12, due to the volatile and uncertain nature of the pricing models developed at that point.
- 9 that DNO efforts towards stakeholder engagement have been very variable and still have a long way to go to reach the standard of customer focus and attentiveness that EDCM customers' spend would attract in a truly commercial relationship. Local peak management, and the pressures of smart grid development will hopefully continue to force an improvement in this area, though quite how this will be objectively measured under RIIO remains unclear.
- 10 that governance of this process will necessarily be complex, time-consuming, and opaque to all but a handful of experts. Is it therefore appropriate to require DNOs to review methodology every year, a process that may be intended (2.20) to "improve" the model will inevitably clog code reviews for little customer benefit ? Perhaps a three- then two-year pause linked to DPCR cycles, and/or a materiality criterion might minimise the bureaucratic load ?

- 11 that the fundamental strategic choice between LRIC and FCP remains to be resolved; it remains to be seen which works better in practice
- 12 that the underlying logic of assuming incremental growth in demand at a node/ substation may be correct for domestic users but can produce considerable volatility in charging when one of the small number of large EHV customers on a node either leaves or increases its demand
- 13 that the impact of scaling remains a substantial part of the overall charges and potentially at odds with the intent (2.20) for the methodology to be common.
- 14 that involvement in a DNO DSM scheme may conflict with TSO schemes,
- 15 that surplus capacity is (2.25) might be treated in different ways depending on where it is on the system; which is better may depend on local circumstances
- 16 that charges estimates are not transparent, and (2.50) that customers have to request DNOs to explain what "behaviours" would help reduce their charges, and that where they attempt to do so the DNOs are hamstrung by uncertainty and confidentiality issues around the load patterns of other local users.
- 17 that the 80-20% residual split is reasonable on a national basis; please don't meddle with this, as little value would be added (3.99).

Opposes

- 18 OFGEM's proposal to allow intermittent generation to have generation credits (2.27-28). If generation is intermittent then it cannot, by definition, be relied upon to support the grid when it is most needed; indeed, the evidence of the last few Triads is that UK system demand peak often coincides with minimal wind generation, and increased distributed generation may well accentuate this.

Specific Questions

- 2.1 See above. In general BOC's assessment of the latest changes is that they are much more stable than those previously considered, they are calculated on a more consistent basis and more fairly reflect the costs involved.
- 2.2 As noted in BOC's letter of 24th June, BOC believes the methodology should be introduced in April 2012, though for the small minority of outliers affected by large percentage increases, the changes should be phased in over five years. BOC accepts that over this period it may therefore incur a small incremental share of the cost of the deferral.
- 3.1 Broadly, Yes; but see notes above. BOC is also a significant CDCM customer and is relaxed about the asymmetry of the "cap and collar" proposed by the DNOs.
- 3.2 Yes

3.3 Yes, the 20% seems reasonable. (In clause 3.55, OFGEM is right in theory to point out the inconsistency between using KVA and KW, but doubts that the additional complexity required to go down that route would add any value, either to customers or to DNOs. It is best left as proposed by the DNOs).

3.4 BOC supports the use of Specific Assets as this sends more accurate location signals, and better reflects the underlying costs.

3.5 No, see note 14 above

3.6 Without knowing how many instances there are, and how big they are, it is hard to quantify whether this is worth chasing after.

3.7 Yes; an obligation on DNOs to communicate with customers

- Which 4-6 HH periods the local Super-Red peak normally is (not just the Red band)
- what the DNO's commercial offer is for Peak Reduction / Demand Side Mgt
- the benefit of reducing their (Super) Red Band demand on next year's DUoS – ie without signing up for a formal DSR scheme.
- How the local DSR scheme fits in with the National Grid Schemes.

4.1.1 Yes – though (ref 4.23) the amount of DG will increase disproportionately

4.1.2 Yes

4.2 Yes – but see notes on the general level of scaling

4.3 Yes – ref 4.52, if generation is non-intermittent it will, by definition, tend to run in the Red Band time periods

4.4 No – see note above. It seems unfair on demand customers who will be seeing higher peak charges (due to a large extent to conversion to wind generation) and on reliable generators that they should be expected to further support intermittent generation in this way. It may be a statement of the obvious, but there is unlikely to be any solar power supplied during the system peaks anyway.

4.5 No comment

4.6 No comment

5.1-4 No comment on LDNO issues

6.1 BOC supports the DNOs positions in their clauses 158 & 159

6.2 Yes, BOC supports the consensus that DSM/ GSM arrangements are reasonable

6.3 Yes

6.4 Yes and Yes

6.5 Given how opaque the model is, then some measure to mitigate volatility is good news for most customers as it would reduce uncertainty, however it would further complicate an already byzantine process.

Finally, BOC supports the OFGEM comments in 6.62, 6.63 and 6.64, but is unclear as to whether the models referred to will be publicly available. The EU REMIT directive may force public disclosure of business-sensitive energy consumption nominations for many EDCM customers, which would seem to make redundant any UK legislation preventing customers

modelling their DUoS charges because of confidentiality about their neighbours demand patterns. Please may large users therefore have greater visibility of what they can do to influence their costs, and how much they might benefit from so doing ?