

Ynon Gablinger
Local Grids – Distribution Policy
Ofgem
9 Millbank
London
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Date: 24 June 2011

Dear Ynon

Consultation response – Electricity distribution charging methodologies: DNOs' proposals for the higher voltages

CE Electric UK Funding Company (CE) is the UK parent company of Northern Electric Distribution Ltd (NEDL) and Yorkshire Electricity Distribution plc (YEDL).

As requested in the above consultation this is our response to question 2.2 in respect of the implementation date for the extra-high voltage charging methodology (EDCM) as submitted to Ofgem on 1 April 2011: our full response to the consultation will be submitted prior to the 4 July deadline.

We note Ofgem suggests there are four options for implementation, namely:

- Ofgem's preferred position to implement in full from April 2012;
- Phased implementation for all customers;
- Phased implementation only for those most affected; and
- Delayed implementation.

We would first like to make clear that CE stands ready to implement the EDCM on 1 April 2012. It is inevitable that, with any change of methodology, some customers will be more affected than others. However, given that the task has been to move from numerous different DNO methodologies all with very different starting positions to one common methodology, we believe an element of disruption is inevitable. As Ofgem points out in the consultation, circa 80% of customers nationally are seeing their charges reduce with 20% either staying the same or increasing, so the majority of customers will not see significant disruption. We believe the EDCM should be implemented in April 2012 as planned, in order to realise these benefits.

We see no case for phasing as this brings into question what alternative methodology would be used to phase the charges and on what basis that charge would be allocated. We do not believe it would be possible to construct a cost-reflective phasing methodology in the time we have available prior to the implementation date.

The main purpose of the EDCM is to incentivise customer behaviour. If, however, Ofgem believes that those customers who will see significant increases need more time to respond to these signals, there may be a case to delay implementation, but it is our firm view that, if there is to be

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delay, implementation should be put back to the start of the next price control period to provide a reasonable amount of time for that customer response. This would of course be at the expense of the 80% of customers who would have been seeing the benefits, and we would argue that those customers may have a good case to insist on the EDCM being implemented as planned on the grounds that it better meets the relevant objectives.

From a CE perspective the overall conclusion we have drawn is that whilst the EDCM has brought some change to the EHV charges in terms of outliers for demand it is producing no worse a level of outliers than our current methodology and is overall more cost reflective. In the generation charges there is a much stronger correlation between agreed capacity and charge so that, whilst there are some customers who will pay a larger charge, it is (at least) in proportion to the size of their agreed capacity and nature of the network they are connected to. Thus, whilst we believe the EDCM can be improved in some areas, we believe it is a substantial improvement in terms of cost reflectivity for the industry.

Ofgem recognises in the consultation that significant interaction with stakeholders has taken place over the past two years, ensuring that they have been made aware of the progress we have made. In some cases this has resulted in changes to improve the methodology and address any anomalies and outliers. Delaying implementation now could be seen as a backward step and it would therefore be better to implement the methodology and for stakeholders to further influence the methodology under open governance once it is approved.

We trust this helps in your decision-making process: however, if you would like to discuss it further please contact me.

Yours sincerely

H Jones

Harvey Jones
Head of Network Trading