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By email only

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Dear Ynon

Response to EDCM consultation

On behalf of ESP Electricity ('ESPE') I am responding to Ofgem's consultation 'Electricity distribution charging methodologies: DNOs' proposals for the higher voltages'. This response is limited to the areas most relevant to ESPE as an IDNO. Please find below ESPE's comments relating to the issues that Ofgem identifies.

Because Ofgem's consultation includes a useful discussion of each issue, ESPE does not intend to repeat any of the points that have already been made. We propose no further issues to those already identified.

<u>Issue 13: CDCM/EDCM boundary</u>

ESPE refers to the separate consultation and is satisfied with the perceived intent. We assume the final drafting will reflect this intent.

<u>Issue 14: components of location specific charge paid by the LDNO</u>

ESPE supports Ofgem's view that the application of discount is appropriate for elements other than just the indirect costs. However, this is about as much as we can comment on at the moment. No evidence is presented in the proposal to support a 50% for indirect costs, but equally we have no contradictory evidence. It seems then that this is certainly an area which would benefit from further consideration.

We would be happy to assist DNOs in conducting further work in this area, and whilst our preference is that this work would be complete in time for an April 2012 implementation, the complexity of this area cannot be ignored, and so this aspiration may not be realistic.

<u>Issue 15: number of discount tariffs (connection types) applicable to LDNOs</u>

Whilst it may seem that this goes against our usual call for cost reflectivity, there is a clear case to be made here in favour of practicality, usability and efficiency. We say this in particular because we have not been convinced that the existence of so many tariffs will be beneficial to networks or customers. Such a granular tariff structure could lead to cherry picking of network scenarios, and it will almost certainly lead to uncertainty for LDNOs. What is to stop a (slight) change in network configuration after the LDNO has already set contractual terms with its customer? Most of all, however, we see no evidence that the proposed high levels of granularity will in fact translate to high accuracy of charging structures. There are simply too many other judgment calls which have (necessarily) been made elsewhere in the EHV methodology to justify the additional complexity proposed here.

We also note Ofgem's point that overall cost reflectivity may not in fact be improved since there is a negative effect on downstream cost reflectivity.

For the above reasons, in addition to the recognised practical implications for LLFCs, ESPE would support a condition that LDNO discounts vary only with point of connection; and that this change could and should be made before April 2012.

Issue 16: capping discount percentages to 100 per cent

We accept that in many areas of the EHV methodology, compromises must be made whereby a number of elements with competing impacts must be balanced against one other. Issue 16 seems to us to be more black and white, however: either cap or don't cap.

We are yet to see a convincing argument for capping the discount, and so it feels like the wrong choice has been made. In effect, introducing a cap of 100% of discount available to the LDNO is *knowingly* building distortion into the charging methodology. Whilst the ability to earn 110% discount may seem wrong upon initial consideration, it does in fact serve a purpose, in that it allows the LDNO to make a margin appropriate to the network in question. Or put another way, it prevents the LDNO from being 'penalised' by the DNO's poor performance. We view this as a mechanism to allow a necessary correction to the permitted revenue recovery for the LDNO. In contrast, the proposed cap combats the symptom rather than the cause, which in this case is the overall treatment of incentive revenues in the model.

For this reason, ESPE would like to see a removal of the proposed cap in discount level.

ESPE would support this change in time for implementation in April 2012, along with the expectation of a more thorough review of the treatment of incentive revenues in the model(s) at some point after implementation.

Please also see ESPE's previous response to this consultation which states our clear preference that proposals should be implemented, in their current state or better, with no phasing or delay in timescales.

If you have any questions about our response, please contact me.

Yours sincerely

David Speake
ESP Electricity Ltd