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SENT VIA EMAIL

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Dear Ynon,

Ofgem consultation on Electricity Distribution Charging Methodologies: DNO's proposals for the higher voltages

ScottishPower Energy Retail Ltd (SPERL) would like to thank Ofgem for the opportunity to respond to their consultation on the distribution network operator's (DNOs) proposals for a charging methodology for customers at the higher voltages (the EDCM). This response is non confidential and we are happy for our comments to be shared.

The EDCM aims to introduce a new cost-reflective means of calculating use of system charges for those users of the electricity distribution networks operating at higher voltages and as a result will have a significant impact on electricity suppliers and end users alike. We have therefore welcomed the efforts taken by the DNOs to communicate their proposals to stakeholders as well as the recent workshops hosted by Ofgem for demand customers and suppliers.

We have the following comments to make on specific parts of the EDCM submission and Ofgem's consultation document.

Question 2.2: Should we approve the methodology, do you agree with our proposal to implement it in full from 1 April 2012? If not, why is phasing-in charges or delaying implementation appropriate?

We would welcome a decision from Ofgem that sets out a clear implementation date. This will then be clear to all stakeholders as to when the EDCM will be implemented and allow for the necessary planning and investment that will be required ahead of its introduction.

We do not support any form of phased implementation for the EDCM.

The introduction of the CDCM caused a number of issues for suppliers and customers due to the number of derogations that DNOs submitted. A repeat of this, or a form of phased implementation, would increase the complexity around understanding which arrangements were in place for which parties and cause confusion for both customers and suppliers. We note that Ofgem plan to make a decision on the EDCM in August/September 2011. We

would ask Ofgem to make a firm decision at that point regarding an implementation date in order to allow suppliers and customers to plan sufficiently.

We would suggest that Ofgem also considers a timeframe within which DNOs are able to make derogations against the EDCM, and should they not raise any such request in this period, should be bound to meet the implementation date set. This would give assurances to customers and suppliers in preparing for the EDCM by letting them know exactly which DNOs are in a position to 'go live' at the agreed date. Such a period, or deadline, should be sufficiently ahead of the release of indicative charges so that suppliers do not make significant investment only for the arrangements for a particular DNO to be altered at short notice. Such uncertainty and change at a late stage may only serve to damage confidence in the proposals and endanger the EDCM meeting its objectives.

We note that at least one stakeholder has suggested delaying implementation of the EDCM until the start of the next Price Control period. This proposal has merit and as Ofgem notes in their consultation, a delay is the 'cleanest' method for mitigating the impact of large changes on customers. We would comment though that a deferment would only be acceptable if it was consistent across the DNOs and Ofgem gave a clear decision on when the future implementation date would be.

Question 6.2: Do you agree with our view that the arrangements for demand and generation side management agreements are appropriate? Do you think such agreements should be available to all customers?

Any arrangements for firm or interruptible capacity that are developed by the DNOs should result in one capacity (and one exceeded capacity) charge for the end user as set out in table 3.2 of Ofgem's consultation.

If the structure of the tariff components was changed to display the firm and interruptible components explicitly then this will unnecessarily increase the complexity of the charge and the cost to suppliers in accommodating this change.

We understand from DNO comments that there is no intention for this to be case and we would reiterate our support for this position.

Question 6.3: Do you agree with our assessment that an explicit reactive power charge is not appropriate?

We welcome, and agree with, the decision within the EDCM proposals not to include an explicit reactive power charge for demand or generation.

The removal of the reactive power charge from the previous submission removes the risk of double charging, and also contributes to the transparency and cost reflectivity of the methodology.

Question 6.4: Do you think the EDCM should include a mechanism to mitigate the potential volatility from network use factors? We welcome views on measures to mitigate volatility and help customers manage volatility.

Ofgem notes in their impact assessment that most suppliers operate 'pass through' contracts minimising the financial impact of the EDCM on them. It follows then that this argument can be used to suggest that the impacts of volatility on them are also reduced.

However as a supplier we are still responsible for maintaining a relationship with the customer and as such can be affected by large swings in a particular customer's charges. We therefore support any proposals from the DNOs that would help to reduce volatility within DUoS charges.

Were the DNOs to propose long term products, this would provide further security for customers in managing their DUoS charges and may contribute to the principles and conditions of the EDCM so as to encourage prolonged efficient use of the network and therefore lower overall costs.

Introduction of a super red time band for kWh consumption at peak

We note that the DNOs' proposals are to introduce a new super red time band for kWh consumption during peak periods. Given that the proposed time bands are seasonal it would be beneficial for suppliers and customers if the DNOs clearly set out between which specific dates this will apply (i.e. not simply "November to March", or, "Christmas and New Year").

Any ambiguity over this increases the risk of confusion and does not allow for stakeholders to make the necessary changes to react to this. We would also suggest that any future changes to this are clearly set out by the DNOs in advance.

I hope that Ofgem finds these comments useful in assessing the DNOs proposals for the EDCM and should you wish to discuss any of the points raised in this response further, please feel free to contact me via the details above.

Yours sincerely,

David McCrone
Commercial Analyst