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Nicholas Rubin
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14 July 2011

Dear Nicholas

Consultation on the request from CE Electric UK (NEDL) to publish use of system (UoS) charges that are not in accordance with its charging methodology

Thank you for the opportunity to comment on this consultation. This letter should be regarded as a consolidated response on behalf of UK Power Networks three distribution licence companies: Eastern Power Networks plc, London Power Networks plc and South Eastern Power Networks plc.

As a user of the Common Distribution Charging Methodology (CDCM) model we are very aware that it needs to be loaded with a complex set of data covering a large cross section of information. We have established in-house processes and controls to ensure that the opportunity for errors in the model are minimised and we regularly review these processes to ensure they remain effective.

If the error which CE Electric has in their current April 2011 CDCM model in their NEDL region is left uncorrected, it will cause an incorrect collection of revenues from certain customer groups, which is not in keeping with the principles behind CDCM. The rectification approach suggested by CE Electric needs to be assessed against the three constituencies affected by their DUoS charges:

- Customers – given that all customers in each of the tariff groups have been equally affected by the error then the proposed approach is probably the most neutral for customers as it would ensure that over the full year the correct costs are levied on all groups. Disturbance may occur where individual customers have materially different summer and winter consumptions but in the round a solution that attempts to balance the costs fairly over a period is the most equitable outcome for customers. Additionally, a solution that resolves errors at the earliest opportunity should be in the best interests of the customers affected by the error.

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- Suppliers – it is unlikely that this approach will be welcomed by suppliers as it will result in an unexpected mid-year step change in charges. CE Electric's quarterly DCUSA 35A publications will have given suppliers an indication of any overall mid-year price change but will not have flagged up the movements across tariffs implied by the proposal. From a supplier and market stability/predictability perspective it may be better not to implement a mid-year change as proposed and to accept that charges for the whole year will be incorrectly collected from certain customer groups, but that the charges remain stable, and thus not unnecessarily impacting upon the market. The tariffs would then be adjusted from April 2012, rolled into the expected tariff change and with more notice to the market.

- Distributors – in this case, the error made by CE Electric is revenue neutral to the DNO, making consideration of the impact on suppliers and customers the focus of the impact assessment. However, an error that resulted in the likelihood of the DNO being materially under or over recovered would have to be factored into any decision on resolution.

Taking the above assessment into account, on balance we believe that CE Electric should make the tariff changes it proposes. This opinion takes into account the revenue neutrality for CE Electric and the benefit of the proposal for customers outweighs its negative impacts for suppliers.

Finally, we concur with the view of the Authority that the area of errors in the UoS Charges should be separately consulted on later in the year. We welcome the opportunity to participate in discussions with Ofgem and other market participants and to work to develop suitable mechanisms for handling such occurrences. In the mean time should you have any questions regarding this response please contact me in the first instance.

Yours sincerely

Paul Measday
Regulation Manager
UK Power Networks

Cc Keith Hutton, UK Power Networks