

Mark Cox
Distribution Policy
Office of Gas and Electricity Markets
9 Millbank
LONDON
SW1P 3GR

19th January 2007

Dear Mark,

Impact assessment and consultation on Western Power Distribution's Modification Proposal to change their Electricity Distribution Use of System Charging Model – Ref: WPD/WALES/WEST/UOS002A

We would like to take the opportunity to provide comment on the implementation by Western Power of the combined Long Run Incremental Cost (LRIC) and Distribution Reinforcement Model (DMR) methodology. Whilst we do not have any comments on the methodology itself, we note with concern the increase in charges with respect to the non-domestic market and the proposed implementation date of 1 April 07.

Based on the two sets of indicative charges published by WPD at the end of December, we have calculated the % disturbance LRIC_DRM vs DRM for customers on LV networks:

	% disturbance LRIC_DRM vs DRM	
	South West	South Wales
Profile 1 Domestic unrestricted	-3	-5
Profile 2 Domestic Economy 7	-4	-4
Profile 3 Non-Domestic Unrestricted	+1	+3
Profile 4 Non-Domestic Economy 7	+2	+3
Profile 5to8 LV network supplies	+8	+18
HH LV network supplies	+5	+8

With a longer lead time, such a change could be factored into any product offering. However, in our opinion an implementation date of 1 April 2007 is completely inappropriate and as stated provides suppliers with a degree of uncertainty to manage.

As a supplier in the SME sector with only a very low proportion of domestic customer, we are of the opinion that we are disproportionately affected and thus disadvantaged by this proposal:

- Gross margins in the non-domestic market are typically 5% so this means that we will be selling at loss unless we re-price to reflect the increase;
- Assuming that overall the DNO revenue does not change significantly, then those suppliers with a portfolio of customers inconsistent with the overall mix in the DNO region will be most affected;
- For Suppliers with fixed price fixed term contracts (as opposed to short-term domestics or pass-through I&C type contracts), it is essential that costs are predictable and any changes have a

reasonable lead time. Re-pricing these customers can reflect badly on a supplier and damage overall customer confidence;

Our concerns are with regards the transition from one methodology to another rather than an assessment of the relative merits of the proposed methodology. On this basis we do not believe that the WPD proposal meets the relevant objectives with regards predictability and facilitation of competition.

We trust that these comments on the impact of this change have been helpful. Should you wish to discuss this further then please do not hesitate to contact myself at AlisonH@Bizzenergy.com or ErnieH@Bizzenergy.com.

Yours sincerely,

Alison Hughes
Trading Arrangements Manager