



Industry & Regulation  
3 The Square  
Stockley Park  
Uxbridge  
Middlesex  
UB11 1BN

Direct Dial: 0208 734 9353  
Facsimile: 0208 734 9350

Friday, 19 January 2007

Mark Cox  
Distribution Policy  
Office of Gas and Electricity Markets  
9 Millbank  
London, SW1P 3GE

Via e-mail: mark.cox@ofgem.gov.uk

Dear Mark,

**Reference: 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/UOSOOZA**

Thank you for the opportunity to comment on the above consultation. This letter represents the views of the Centrica Group excluding Centrica Storage Ltd. This response is non-confidential and may be published on the Ofgem website.

Centrica welcomes Ofgem's approach of carrying out an impact assessment on the above proposals especially given that they relate to the proposed enduring methodology. We would encourage Ofgem to also carry out an impact assessment on the enduring proposals from the other DNOs in due course.

Ofgem raises the following questions:

- 1) WPD state that their proposal better meets the relevant objectives with regard to transparency and cost reflectivity. Does the modification proposal better achieve the relevant objectives?*

Overall, Centrica is of the view that the proposal does improve transparency and cost reflectivity and hence better achieves the relevant objectives. However, we would also note our continuing view that the proposal does also introduce a greater degree of complexity to the charging methodology.

Centrica plc  
Registered in England No. 3033654  
Registered Office  
Millstream, Maidenhead Road  
Windsor, Berkshire SL4 5GD

Whilst we are able to support the introduction of this change from 1<sup>st</sup> April 2007, we would wish to make the following observations, which we hope will be helpful in considering proposals from the other DNOs in due course:

- a) We believe it is unfortunate that WPD elected not to consult further on the proposals prior to submission to Ofgem. A number of significant amendments were made to the proposals after the last consultation and prior to the Ofgem submission. Given the proposals relate to the enduring methodology, we believe that good practice would be for WPD to re-consult in advance of the Ofgem submission. We note that this consultation by Ofgem has given respondents the opportunity to consider the final proposals.
- b) Due to the timescales involved, WPD's wish to implement these proposals from 1<sup>st</sup> April 2007 has led to it publishing two sets of indicative charges in December 2006. One set will be implemented if Ofgem does not veto the proposed change and one if it does. Whilst we understand WPD's rationale, this is inconvenient to suppliers and leads to continuing uncertainty. Suppliers need to offer prices to customers well in advance, and this kind of uncertainty, especially where the changes are significant, is not helpful.
- c) The indicative proposals published by WPD in December, alongside the submission to Ofgem, are the first reliable indication to suppliers and customers of the detailed impact of the proposals. It would have been preferable for WPD to have published a further detailed consultation, including a full set of indicative charges in advance of the Ofgem submission. In our view it is reasonable for suppliers and customers to receive this kind of clarity prior to final proposals being submitted to Ofgem. Such clarity can only improve and support information transparency and assist customers and suppliers in their planning and budgeting processes.

*2) Have we correctly captured the main issues in Annex 1?*

Centrica believes Ofgem has correctly captured the main issues in Annex 1.

We note the approach proposed by WPD in respect of existing generators not being able to opt in to the new arrangements individually. We believe it would be appropriate for WPD to set out its proposals in respect of the "package" implementation for generators at an early date.

In respect of the capping of negative demand charges to zero, we appreciate that the impact of this proposal is immaterial at the present time as there are no demand charges currently capped to zero. However, we are of the view that this may change in future, if these provisions are required. With this in mind we believe that a procedure should be set up in advance, such that if these provisions are used, they will be promptly reported to the community and monitored to ensure no significant adverse effects on other customer groups mount up.

*3) Have we correctly identified the impacts in Annex 2? In particular we would welcome quantified assessments of impacts.*

One of our key concerns in this area has been the potential cost of implementation for suppliers. As WPD has not proposed changes to the structure of its actual charges, we are satisfied that at this juncture there should not be costly effects on supplier systems. We remain concerned, should WPD as a result of these changes, propose changes to the structure of charges at a later date.

As above, we note the greater complexity, and trust that WPD will use its best endeavours to ensure that this does not create added difficulties or costs for suppliers.

We hope that these comments have been constructive. Should you wish to discuss any points in more detail, I should be happy to help.

Yours sincerely,

Alison Russell  
Senior Regulation Manager, Upstream Energy