

Mark Cox  
Distribution Policy  
Ofgem  
9 Millbank  
London  
SW1P 3GE  
[distributionpolicy@ofgem.gov.uk](mailto:distributionpolicy@ofgem.gov.uk)

19 January 2007

Your Ref: Ofgem doc 214/06

Dear Mark

**Impact assessment and consultation on Western Power Distribution (WPD)'s modification proposal to change its Electricity Distribution Use of System (DUoS) Charging Model - Ref: WPD/WALES/WEST/UOS002A**

energywatch welcomes the opportunity to respond to the issues raised by this document. This response is non-confidential and we are happy for it to be published on the Ofgem website.

We consider that the DUoS charging methodologies should, in a balanced way, reflect the objectives set out in the Distribution Network Operators' (DNOs) licence obligations. For example, the objective to facilitate competition can conflict with the objective to apply cost reflective charges. We believe that the majority of consumers (and particularly domestic consumers) are passive recipients of the DNOs' services and have no real means of influencing how the DNOs manage their networks. As a result, significant changes to DUoS charges are unlikely to affect their usage behaviour. It is for this reason that the charging methodologies must reflect fair and reasonable charging of users in a simple, predictable and transparent way.

We believe that the Distribution Reinforcement Model (DRM) remains the most appropriate methodology for calculating DUoS charges for the vast majority of users. Whilst this may not necessarily be the most cost reflective method, the DRM recognises the position of users as stated above. For the very largest users, site specific charges and connection charges can be set to reflect the impact these users have on a DNO's network.

We note WPD's intention to move to a Long Run Incremental Cost (LRIC) approach to calculate the DUoS charges for EHV-connected users. This approach could be considered to be more cost reflective. However, we would question whether, with the potential for significant tariff disturbance for individual EHV users without a transitional period for adjustment, it represents a fair and reasonable change. We also recognise that the introduction of a different methodology for a small number of users is not without impact on all other customer groups, as the recovery of total allowed revenue is achieved through the scaling of all charges.

We also question the impact of a locational approach to charging, even for those users who may be considered more responsive to a more cost reflective approach (namely EHV users). DUoS charges are only one factor that such a large user (whether on the demand or generation side) will take into account when making a decision to connect to the distribution grid at a particular location. There will be factors such as geography, proximity to resources and general economics of the user which will be competing priorities. Therefore, while we accept that the principle of cost reflectivity can help to ensure that costs are attributed to those users who cause them, it may create anomalies which have the potential to adversely affect the security of the network. Indeed there may be a detrimental impact on the development of some forms of distributed generation if locational charging causes significant tariff disturbance year-to-year.

We note that WPD has tried to keep the change relatively simple and transparent by adopting a uniform growth rate for the network in calculating charges. However, this may compromise the locational cost reflectivity which it wishes to achieve. It is recognition that there needs to be a balanced approach to developing a purely cost reflective methodology. We also do not agree that transparency of charges alone facilitates competition. Amongst a largely unresponsive user base, the introduction of variable locational cost reflective charges may have a wider impact which reduces competition.

We, therefore, do not believe that the modification proposal in its current form should be implemented without further consideration of, at the least, a transitional arrangement that avoids significant tariff disturbance. We agree that, over time, it may be more appropriate for an element of cost reflectivity to develop for a particular group of consumers who are likely to be responsive to changes in network charges. However, we do not see how the current proposal achieves that aim.

Going forward, we will continue to keep these issues under review as and when they are raised, always considering the possible impact on consumers. We are aware that other DNOs are also considering changes to their charging methodologies which may result in more cost reflective charging for a specific group of users but we will consider these proposals as they are raised.

We would appreciate being kept informed of the progress of the consultation and any related issues to enable us to comment as the need arises.

If you do wish to discuss our response further please do not hesitate to contact me on 0191 2212072.

Yours sincerely

Carole Pitkeathley  
Head of Regulatory Affairs