

17<sup>th</sup> January 2007

**Attention of Mark Cox**

Ofgem  
9 Millbank  
London SW1P 3GE

Dear Mark,

**Ofgem impact assessment and consultation on Western Power Distribution  
Modification Proposal WPD/Wales/West/UoS002A**

Thank you for the opportunity to comment on the Western Power Distribution (WPD) Modification Proposal WPD/Wales/West/UoS002A. As you are aware we are a first generation independent distribution network operator (IDNO). While we do not presently own assets in either of the WPD licence areas, the changes brought forward could well have ramifications for other distribution areas especially as this is the first major proposed change to the UOS methodologies following the licence changes introduced in April 2005.

Our starting position from any such initiative would be one of seeking to minimise charge disturbance for ourselves and our existing customers subject to the maintenance of commercial and operational viability of very significant investments. As a guiding rule, changes to a distributor's existing methodology should be minimised where possible and the simplest, most transparent, stable and predictable methodology should be chosen unless there are clear and substantiated benefits from a more complex approach.

It is not obvious to us that WPD have passed this test as there are offsetting issues and impacts arising from their proposal, especially with regard to creating a dual methodology comprising both LRIC and DRM approaches that could lead to discrimination within customer categories dependent upon the level of connection. The LRIC proposal would also create distributional effects between customers in the same category who are EHV connected if it were implemented. It is also clear that a locational approach as represented by LRIC will increase volatility in individual user's charges and regulatory risk. The LRIC methodology is also significantly more complex than the DRM already in use and could impact adversely on competition.

It is not a licence requirement for all DNOs to use the same charging methodology. There is though considerable merit in our view if there were as much commonality as possible between DNO methodologies. Whilst we do not - at least as yet - have a view as to which methodology being developed by various DNOs is better or whether different methodologies are appropriate for different types of network, we feel that a few more

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months assessing the relative merits of the competing methodologies presently being developed may result in an outcome of more commonality. Such a process might also achieve greater consensus among DNOs and their stakeholders on charging methodology or methodologies that might better meet the applicable licence objectives.

Should you require any further comment or clarification please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in purple ink, appearing to read "Darren Grundy". The signature is fluid and cursive, with a large loop at the beginning and a long, sweeping tail.

**Darren Grundy**  
**Business Leader**  
**For Laing O'Rourke Energy Ltd**