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**EHV Distribution Charging Methodology (EDCM)
Consultation on Condition 3**

Thank you for the opportunity to respond to this consultation. This is a non-confidential response on behalf of the Centrica Group excluding Centrica Storage.

We are concerned that this change to the EHV charging methodology is proposing a further increase in revenue recovery from CDCM customers. The implementation of EDCM in April 2012 is thought to have resulted in increasing the revenue recovered from CDCM customers by over £30m/yr. This further change will add a further £10m/yr to the revenue to be recovered by CDCM customers, with EDCM charges reducing in approximately 80% of cases. In reality this means that the vast majority of customers across the country will see an increase in their charges.

Given the inexact nature of price modelling, requiring a large number of assumptions, there is inevitably going to be a number of subjective decisions to be made. Our experience to date is that when such decisions are made they have tended to place costs on CDCM customers. Due to the greater number of CDCM customers, relative to EDCM customers, the impact of changes can appear more acceptable on £/customer basis. It is important that care is taken to ensure that extra costs are being placed on CDCM customers only when fully justified in terms of cost-reflectivity.

In relation to the issue of spare network capacity, we believe the causes of spare capacity on the EHV network, and in particular the likely relative contribution of these by CDCM and EDCM customers, requires further consideration.

It is reasonable to suggest that spare capacity on the EHV network levels is driven differently by CDCM customers and EDCM customers. CDCM customers being large in number, diverse in nature and located far from the network level in question are likely to drive less spare network capacity, when compared with EDCM customers, who are small in number, large in size, lack diversity and are located at or close to the network level in question. Should the DNO proposal be recommended by Ofgem to enter the DCUSA governance process, further investigative work needs to be undertaken to ensure that subjective decisions, that adversely impact any customer or group of customers, can be well justified.

Below are answers to the specific questions asked in the consultation.

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Q1. Do the proposals contained within this document meet the requirements of Ofgem's Condition 3?

We believe that the short time frame between the close of this consultation and the requirement for DNOs to submit a report to Ofgem may limit the ability of DNOs to give due consideration to the responses received. However we are content that further work can be undertaken during the DCUSA change process and therefore we are reasonably satisfied that the work of the DNOs to date fulfils the requirements of Ofgem's condition 3.

Q2. Do you agree with our view that the network use factors for demand tariffs of a generation-dominated mixed site should continue to be set to default values?

This seems reasonable.

Q3. Do you support the implementation of the proposed methodology for calculating EDCM demand charges from 2013/2014 onwards?

We have doubts whether this issue, given its complexity, can be progressed through the DCUSA change process in time for April 2013 charges.

Furthermore, we note that almost one in five EDCM customers are facing changes of more than 20% in their annual charges as a result of this proposal (see table 1 below). Just a year after the uncertainty and large changes to charges brought about by the implementation of the EDCM, we do not think it is appropriate to have another round of uncertainty and large changes for April 2013. In our view it would be sensible for DNOs to propose that any change would not be implemented until April 2014. This would help to ensure that affected customers have more time to factor in changes to their expected charges following any successful change to the methodology.

Table 1: % change in charges: number of customers

	Increase in charges	Decrease in charges	Total
<10%	185	532	717
10% to 20%	36	199	235
20% to 40%	14	138	152
>40%	4	36	40

We trust these few comments are helpful.

Kind regards,

[Via email]

George Moran

Transmission & Distribution Forecasting Manager

British Gas