

EHV Distribution Charging Methodologies Consultation - Response from the Energy Intensive Users Group

EIUG wishes to make a number of general points in response to the ENA's EDCM methodology consultation. Without prior involvement in the process, our knowledge is inadequate to make a more detailed response.

EIUG

The Energy Intensive Users Group (EIUG) is an umbrella organisation that represents the interests of intensive industrial energy consumers and campaigns for secure, internationally competitive energy supplies. The intensive manufacturing sector has a critical role to play in a rebalanced UK economy; intensive industries in the UK directly employ 225,000 workers and contribute over £15 billion to UK GDP. To provide a strong foundation on which to rebuild our economy, it is vital that the UK remains a good place for intensive manufacturing to do business. Unfortunately, the EDCM charging structure has the potential to undermine the competitive position of a substantial number of UK intensive manufacturing businesses both in the short and longer term.

Timescales

Ofgem's contracted timetable to implement the EDCM change has allowed wholly insufficient time for consultation with users. Two weeks is a manifestly inadequate period of time to acquire the requisite level of understanding and hence to be able to respond adequately to questions at this level of technical detail.

EIUG has not been given the opportunity to participate in the process. This is a real pity, as a large number of our members make up a substantial proportion of the very small EHV population. We could therefore have acted as a conduit of information to and from our members and flagged up some of the key issues that in their view make the current proposals unworkable.

Although some of our members have reported that they expect to benefit from decreases in their EHV charges, a far larger number have informed us that their charges will increase, in most cases substantially, some up to double and in one case by four times. Increases of the magnitude, only requiring 40 days notice, are crippling and potentially unsustainable.

There appear to be three particular issues for our members:

1. Treatment of pre 2005 Generation

Prior to 2005, a number of our members made their initial investment decision on the basis that they paid for distribution reinforcement up-front. In any other commercial environment, one party would not be in the position to change the terms of a deal so fundamentally, on a

unilateral basis, retrospectively. In the light of this, we believe that the treatment of pre-2005 generation should remain, undisturbed.

2. Capacity Scaling

Scaling is the mechanism that is being used to make up the difference between the total allowed revenue derived from CDCM and EDCM minus the specific aspects that have been defined under the new EDCM regime for demand and generation (Charge 1, Charge 2, SUA Exit Charges). This aspect of the charge is vast for some of our members. One member, for example, has cited their Capacity Scaling charging making up 68% of their new, vastly increased charges. 'Scaling' is problematic in that it makes up such a huge part of the charges for some customers in some areas, pulling additional revenue into EDCM from CDCM. Given that it is not to pay for anything specific, we believe this aspect of charging should be revisited as a matter of some urgency. If this is not done, users could be left with hugely inflated bills but without the time or opportunity to put in place plans to address their load, where possible, and respond to the cost signals being generated by the system.

3. Boundary between CDCM and EDCM

Whilst it is understandable that Ofgem would like to regularise boundary issues for users that have been treated as EDCM but have lower voltage connections, we believe the status quo should remain undisturbed. This is as a consequence of the impact on those directly affected by the boundary changes, and the rest of the EDCM user population for whom EHV costs will have to be reallocated between a smaller group of users.

The Needs of EHV Users

EHV users need a stable pricing system that will enable them to plan ahead and give them the opportunity to respond to the cost signals resulting from the costing model. In the light of these needs, we urgently request that:

1. Timescales should be revised to ensure that what is implemented is a cost reflective system, on which users have been fully consulted, and which will be workable for them.
2. Substantial cost increases, if justified, should be phased in over a five year period to enable businesses to implement the requisite projects and to respond appropriately to the signals being given by the model.
3. EIUG should have the opportunity to participate in this process going forward and represent the interests of its members.
4. As a consequence of the increasing localisation of the costs, coupled with the small number of EHV users, EHV customers have no idea of

the volatility inherent in their cost prices and as a business cannot therefore plan or manage for these costs. Consideration should be given to fixing prices for a five year period to give stability and certainty to users. Both DNOs and EHV users plan their infrastructure investment over the long term. In the light of this, it should be possible to create a stable cost price system that can achieve this objective.

5. A minimum of 120 days notice, rather than 40, should be provided for future pricing changes to enable businesses to budget properly.

Given the magnitude of the impact on EIUG members, we strongly believe that more time is required to review the EDCM pricing proposals and to create a properly functioning system that does not have the potential to fatally damage industries using the EHV network.