

Dear Maria,

SSE supply business response to the G3 consultation (13th June 2007) on DUoS charging methodologies

SSE Supply welcomes the opportunity to respond to the G3 consultation on charging methodology.

We acknowledge that the apportionment of use of system costs is a matter of great theoretical controversy where a number of different approaches are possible. Each, no doubt, has pros and cons.

As a supplier our primary concern is the impact on customers. Regulatory intervention has frequently been the cause of instability in use of system charges which leads to price disturbances. More often than not, these price shocks have not been anticipated. In the short term this has given suppliers difficulty in managing margins. In the long term, this leads to additional risk premiums in supply prices which operate against customer interests.

We hope that G3 methodology will be applied in a pragmatic way with a view to minimising volatility and maximising predictability. We would also like to see a forward looking view on price structures that leads us on a logical path to the type of approach that will be required when smart meters are rolled out.

There are a number of specific points we would like to draw to the distributors' attention.

1. We note that G3 will issue the first set of firm prices in Jan 08 as part of the indicative version of the April 08 DUoS rates. If a significant rebalance is anticipated, a (less firm) indication of the type of change anticipated would be helpful to suppliers.
2. We note that G3 are rebalancing prices between customer groups to improve cost reflectivity. We would urge G3 to maintain the existing customer group price relativities if this can be accommodated within the scaling mechanism and where this does not distort an unambiguous cost message. In particular, we urge that these considerations are brought to bear on the proposed increases in DUoS night and off peak charges.
3. We note that the EHV pricing methodology changes have affected domestic and small business prices. Our assumption is that this is a result of the movement to a new methodology and that in future HV & LV price levels should not be affected by changes in the EHV market. We would welcome an assurance on this point.
4. We note that tariff structures may be simplified following the G3 methodology changes and that a single LLF code may be used to represent several supply tariffs. For example LLF code 104 might be associated with all the profile 2 supply tariffs inc. day/night, evening & weekend/night and E10. We believe some further consideration of the operational impact of these changes may be required before implementation.

Please contact me if any clarification is required on any of these points.

Regards,

Richard Westoby
Pricing & Forecasting Manager