

Structure of Electricity Distribution Charges Implementation Steering Group

Proposed Terms of Reference

1. Purpose

- 1.1 The purpose of the group is to facilitate further discussion about the commercial, regulatory and technical aspects of Ofgem's proposals for changes to the electricity distribution charges regime, and to assist Ofgem in ensuring that the changes are implemented in a robust, efficient and, where appropriate, consistent manner across all Distribution Network Operators (DNOs).
- 1.2 The group will provide a forum for discussion but will not have formal decision making powers and will not preclude a full consultation of the issues.

2. Background

- 2.1 The introduction of revised wholesale trading arrangements, revised transmission charging arrangements, the ongoing development of competition in electricity supply, generation, connections and metering and the anticipated growth in distributed generation have resulted in continuing evolution of the high-level operating conditions of the GB electricity industry. EU Directives on the internal market and on renewables also change the legal framework. As a result of these continuing structural changes, Ofgem and the industry have been working for some time on a project to review the structure of charges levied by electricity distribution companies. In October 2003 Ofgem will set out its initial decisions for changes to the existing regime.
- 2.2 Ofgem has previously stated its preference that, given the important interaction between the forthcoming distribution price control review and the structure of distribution charges, changes to the present charging regime should be timed to come into effect no earlier than the start of the next distribution price control period (April 2005). It is recognised that some changes may take longer than this and may potentially not come into effect until 2010.
- 2.3 In order to assist in the development and implementation of the interim arrangements and the development of the longer term changes across all DNOs, the structure of charges implementation steering group will facilitate further discussion about the commercial, regulatory and technical aspects of the final proposals. The group will assist Ofgem in ensuring that the proposals are implemented in a robust, efficient and, where appropriate, consistent manner across all DNOs.

3. Terms of Reference

- 3.1 The group will steer and report on work programmes necessary across the industry to support the introduction of changes to the structure of electricity distribution charges. It will assist Ofgem by addressing issues likely to arise from the proposals for new charging arrangements, for example:
- consideration of the issues relating to the proposed requirement for DNOs to set out charging methodologies;
 - defining the conceptual boundary between connection and use of system, including appropriate reinforcement contribution rules (including fault level);
 - the approach to establishing use of system charges, including the methodology to be adopted and generic assumptions;
 - the development of forward looking estimates of long-run marginal costs;
 - the steps required to implement generator use of system tariffs;
 - identification of potential changes to the regulatory framework (e.g. E(CCC) Regulations, standard licence conditions and industry agreements) necessary to facilitate the introduction of arrangements covering proposed changes to the connection boundary; and
 - consideration of the possibility of providing the option of varying quality of connection available to users (e.g. allowing lower constraints or higher security on capacity for a higher charge).
- 3.2 Where necessary, the group will identify, and foster links with, other industry groups that have an interest in the structure of electricity distribution charges project. This may include, for example, groups considering similar issues in transmission.
- 3.3 The group will seek to reach a reasonable level of consensus on the approach to implementation, including making recommendations for scheduling of work.
- 3.4 The group will assist in the design of Ofgem's implementation plan and timetable, including making recommendations for the scheduling of work.
- 3.5 The group may recommend the formation of specialised sub-groups to take forward detailed implementation issues where this found to be necessary.

4. Guiding Principles

- 4.1 It is the intention that the group will conduct itself in an open and transparent manner.
- 4.2 The commitment of group members will be vital to achieving results. Members will be encouraged to submit papers to the steering group as required highlighting issues and suggesting solutions to problems.
- 4.3 Group continuity will be integral to its success. Alternates will be allowed if members cannot attend, but it is important to note that they are there to substitute for the member in question and not as an additional member of the group.

- 4.4 Group members will be expected to consult within their respective communities with a view to bringing as representative a view as possible to the work of the group.
- 4.5 The group will provide a forum for discussion but will not have formal decision making powers and will not preclude a full consultation of the issues.

5. Constitution and Organisation

- 5.1 The group will be chaired by Ofgem, and will meet approximately bi-monthly. Group members will be volunteers drawn from a cross-section of industry sectors as follows:
- 1 representative of each DNO group (8 in total)
 - 2 supplier representatives
 - 2 generator representatives
 - 2 customer representatives
- 5.2 Dates and locations for each meeting will be set in advance by agreement between group members. The costs of meeting rooms, refreshments and administration will be met by Ofgem. Ofgem will not meet the expenses of any individuals invited to participate in the groups and no funds will be made available by Ofgem for the commissioning of studies etc.

6. Reporting

- 6.1 Agendas and any material for discussion will be circulated to group members by the chairman approximately one week prior to each meeting.
- 6.2 Ofgem will produce a summary of key issues from each meeting. The agenda, meeting notes and associated papers will be published on the Ofgem website. Members are not under any confidentiality requirement and will be encouraged to report back to other parties on the issues that have been discussed.

7. Timescales

- 7.1 It is envisaged that the group will run until at least the end of 2004.