



Governance of charging methodologies

DISG 15, 3 August 2004

Conclusions on Governance – May 04

- Independent governance entity (IGE) responsible for administration of changes to charging methodologies.
- IGE manage consultation process and implementation
- Networks retain responsibility for developing own charging methodology changes.
- Creation of IGE should promote transparency, and reduce potential for undue discrimination.

Issues arising from workgroup discussions

- Should all DNs be required to make consistent changes to their methodologies at the same time?
- Should charging methodology objectives be changed?
- Will Ofgem consider the costs of potential divergence in assessing changes to charging methodologies?
- Should changes to NTS charging methodology be managed by IGE?
- Frequency of changes and revenue forecast information.

Ofgem position (1)

- Informal view only – Authority discretion cannot be fettered.
- Need to consider experience of electricity sector
- Requiring networks to make consistent changes reduces incentives to innovate.
- Preferable to consider fragmentation issues against the charging methodology objectives.
- Existing methodology objectives satisfactory – Ofgem will need to consider impacts of divergence on retail competition.

Ofgem position (2)

- IGE should manage both NTS and DN charging methodology change processes – minimise potential for undue discrimination;
- Ofgem recognises concerns regarding frequency of changes to charges ...
- ...reasonable endeavours obligation on networks to change charges on a specified date (eg 1 Oct) once a year.
- Plus...better information – ex ante revenue forecasts should be released.