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## **Electricity distribution Structure of charges: Authority approval of DNO charging methodologies**

Ofgem is today publishing the Gas and Electricity Markets Authority's (the Authority) decisions on approval of the 14 distribution network operators' (DNOs) charging methodologies for connection to and use of the distribution system. The DNOs are required by their licences to determine methodologies and have them approved by the Authority by 1 April 2005.

### *Background*

This requirement was introduced in an amendment to distribution standard licence condition (SLC) 4, made on 7 July 2004<sup>1</sup> to secure compliance with EC Directive 2003/54. Article 23 of the directive states that regulatory authorities should be responsible for approving at least the methodologies used to calculate the terms and conditions for connection and access to the national networks, including distribution tariffs<sup>2</sup>.

### *Interim charging arrangements*

The introduction of charging methodologies is also part of a wider review of the structure of electricity distribution charges which Ofgem has been carrying out with the industry since 2000. In November 2003 Ofgem proposed that the implementation of revised arrangements for the structure of electricity distribution charges should be achieved in two stages. 1 April 2005 sees the introduction of 'interim' charging arrangements, including a common connection boundary for demand and generation connections and the introduction of use of system charges for generators connecting to the distribution system.

### *Longer term charging arrangements*

Work on the longer term arrangements has already begun, primarily through the Ofgem/industry structure of charges implementation steering group (the ISG), and will be further progressed during 2005. Ofgem will be publishing a consultation document on options for longer term charging models in April 2005.

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<sup>1</sup> The amendments to SLC4 (reference 150/04) are available from the Ofgem website at <http://www.ofgem.gov.uk/ofgem/work/index.jsp?section=/areasofwork/licensingmodifications>

<sup>2</sup> EC Directive 2003/54, Article 23, available at [http://europa.eu.int/eur-lex/pri/en/oj/dat/2003/l\\_176/l\\_17620030715en00370055.pdf](http://europa.eu.int/eur-lex/pri/en/oj/dat/2003/l_176/l_17620030715en00370055.pdf)

### *The approvals process*

In deciding whether to approve the charging methodologies, the Authority has considered whether the methodologies meet the relevant objectives set out in SLC4 and 4B, and has also taken account of its wider statutory duties.

Ofgem consulted on the charging methodology statements in October 2004, and then on the separate issue of EHV transition strategies in December 2004. Responses to both of these consultations have been considered by the Authority in reaching its decision. The Authority has also considered the representations made by the DNOs after notice of its proposed decisions was provided to the companies on 16 December 2004.

Where the Authority considers the methodologies require further development in order to meet the relevant objectives, conditions have been applied, and timescales set for the DNO to work towards a suitable solution. These deadlines range between 1 April 2005 and 1 April 2006, and Ofgem will work with the DNOs to ensure that these timescales are met.

Once approval has been issued, the DNOs are obliged by the licence to review their methodologies at least annually, and make such changes as would help the methodologies better meet the relevant objectives. Changes to the methodology must be brought to the Authority for approval, and the Authority will consult on these changes where it is deemed necessary.

The Authority considers that the current methodologies form a baseline from which the DNOs should actively work with Ofgem and the wider industry to develop longer term charging arrangements and to improve the methodologies over the coming years.

### *Summary*

Decision documents outlining major issues and general comments on the methodologies are being published according to DNO group. These should be read in conjunction with the methodology statements, which can be obtained from the DNOs.

In summary, the Authority is:

- Approving the connection charging methodologies for CE, CN, EDF, SP, SSE and WPD, and conditionally approving the UU connection charging methodology.
- Conditionally approving all seven of the use of system charging methodologies.

The decision documents are published on the Ofgem website at <http://www.ofgem.gov.uk/ofgem/work/index.jsp?section=/areasofwork/distributioncharges>. Authority decisions on changes to the methodologies and on the completion of conditions will also be published here in the future, along with further information on the progress of the structure of charges project and the work of the ISG.

For further information on any of these issues, please contact [distributionpolicy@ofgem.gov.uk](mailto:distributionpolicy@ofgem.gov.uk).