

ISG – 17 October 2006

**Discussion Note
IDNO Use of System charging methodology**

Background

Like DNOs, IDNOs are required to determine and prepare a statement of a use of system (UoS) charging methodology that meets the relevant objectives and is approved by the Authority, as required by standard condition 4 (Use of System Charging Methodology) of the licence.

Amended standard condition BA1 (Charging Arrangements) of the licence requires IDNOs to set charges to domestic customers for UoS such that the standing charge, unit rate and other components of the charge shall not exceed the UoS charges to equivalent domestic customers connected to the host DNO's network. This constitutes a relative price control for IDNOs.

Issues

IDNOs are smaller than their DNO counterparts with a comparatively smaller number of connections, spread across different DNOs' distribution services areas. Consequently, at this stage, for IDNOs to produce a UoS charging methodology and model, similar to that produced by DNOs, may not be practicable or cost effective.

Charges that reflect the host DNO's UoS charges may well represent the most reasonably practicable cost reflective charges that IDNOs can achieve and facilitate competition in the supply market. Consequently, an IDNO UoS charging methodology which reflects the host DNO's charges may be the most reasonably practicable way for IDNOs to meet their licence obligations (standard condition 4 and amended standard condition BA1).

Views invited:

We are minded to approve UoS charging methodology statements submitted by IDNOs which set out a methodology for charging all customers connected to the IDNO's distribution system, based on the host DNO's charges. This does not preclude IDNOs from developing charging models (that meet the relevant objectives and the requirements of amended standard condition BA1) and submitting for approval UoS charging methodology statements on this basis.