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Dear Jenny

### **Code Governance Review: Charging methodology governance options**

Thank you for your consultation with regard to the Code Governance Review: Charging methodology governance options. Our response to this consultation primarily relates to the charging methodologies for electricity distribution.

This issue is inextricably linked to the electricity distribution structure of charges project and cannot be considered in isolation from this work. There is another consultation on the next steps regarding the structure of charges which we will respond to separately. The way forward on governance is dependent on how the structure of charges work is progressed.

In the structure of charges consultation, Ofgem indicate a number of options which would basically result in either a common methodology for all DNOs or a continuation of the individual DNO specific methodologies. The common approach is likely to apply to only part of the overall methodology. The governance arrangements for the common and individual aspects of the charging methodologies should be different.

#### Common Methodologies

Should common DNO charging methodologies be introduced we believe that this would need to be supported by a common governance process. In this circumstance we would favour Option 3 of Industry Code Governance as it makes use of an existing change management infrastructure. A licence modification allowing non-DNOs to bring forward modifications that would apply to all DNO methodologies would require the establishment of change management procedures to properly evaluate the proposals for all DNOs. This option would effectively become the same as Option 4 where a number of Network Operators are using the same charging methodology. We cannot see the merit in Option 4 which would replicate much of the change management processes that already exist in DCUSA for no additional benefit.

#### DNO Specific Charging

Should the current arrangement of DNO specific charging methodologies be retained, we can see no value in changing from the status quo, Option 1 in the paper. It is not cost effective for each DNO's charging methodology to be governed by a common change management process which will rule out Options 2, 3 and 4. DNOs already have licence obligations to keep their methodologies under review and they would be obliged to consider, in any case, proposals

from users to change the methodology and bring forward a modification if the DNO believed that the modification better met the relevant objectives.

Unless there is a significant change to the current licence requirements then there is no justification to move away from the recommendations of the Brattle report. The only justification for change is if a common charging methodology is introduced which would be unworkable in the absence of a common governance arrangement.

Yours sincerely

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