

**Electricity distributors,  
suppliers, generators and  
other interested parties**

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Reference 149/08

Dear Colleague,

Date: 3 November 2008

**Consultation on IDNO and DNO out of area use of system charges: reduction of the 3 month notice period for amending charges under SLC 14(20)**

**Background**

In March 2007 Ofgem launched the Electricity Distribution Licence Review (DLR). The aim of this review was to scrutinise the provisions of the standard licence conditions (SLCs) contained in the Electricity Distribution Licence and make amendments to improve the style, ease of use and format of the licence. This review reached its conclusion in May 2008 and the modified licence came into effect on 1 June 2008.<sup>1</sup>

The scope of the review did not involve changing the policy contained with the licence conditions. However, the working group established to review the licence did raise some policy questions. One of these policy questions concerned the requirement for all licensees to provide both the Authority and any person with whom it has entered into an agreement for use of system (UoS), a notice of any changes to UoS charges 3 months prior to those changes taking effect.

IDNOs and DNOs (when operating out of area) have a concern with this licence obligation. Due to the relevant price control in place under BA2 (or special condition G1<sup>2</sup>) IDNO charges are dependent upon the host DNO charges. IDNO UoS charging methodology statements have tended to state that they will replicate DNO charges in order to comply with BA2 and their obligation (under SLC 13) to have a UoS methodology statement in place. An IDNO<sup>3</sup> therefore has to wait until a DNO issues its notice of charge changes before it can issue its own notice. IDNOs often own and operate networks in multiple Distribution Service Areas (DSAs). IDNOs have subsequently commented that it is unreasonable for them to receive and recognise all DNO charge changes, modify their systems and provide their own notice of charge changes within a time span which may be limited to less than 24 hours.

Within the DLR conclusions letter we stated that we had consulted upon making changes to this obligation as part of the review. Suppliers responded that they felt uncomfortable at losing the 3 months' notice from IDNOs as they could not always be confident that the IDNO charge would replicate that of the host DNO.<sup>4</sup> We therefore concluded that the issue would be pursued outside the DLR.

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<sup>1</sup> Please see the DLR Conclusions letter 50/08 for further details. This document can be found at: [http://www.ofgem.gov.uk/Networks/ElecDist/Policy/Documents1/DLR%20Conclusions\\_letter.pdf](http://www.ofgem.gov.uk/Networks/ElecDist/Policy/Documents1/DLR%20Conclusions_letter.pdf)

<sup>2</sup> DNOs are also subject to a relevant price control when operating out of area and this is contained within special condition G1 of their licence.

<sup>3</sup> Henceforth, please read "IDNO" as referring to both IDNOs and DNOs operating out of area.

<sup>4</sup> Suppliers correctly pointed out that the relative price control only caps UoS charges for domestic customers. In theory, then IDNOs are permitted to charge less than the host DNO to domestic customers and can charge less or more than the host DNO to non domestic customers. In practice, all energised IDNOs now have a UoS

Some IDNOs<sup>5</sup> have applied for and been granted temporary licence consents under SLC 14(20) allowing them to provide 2 months' notice of UoS charge changes where the changes proposed by the IDNO reflect the new tariff changes proposed by the host DNO. The Authority granted these consents on the basis that they would have a minimal impact on Suppliers as they will have already have received three months' notice of charge changes for each DSA from the host DNO.

### **Licence change - views sought**

Some IDNOs have now requested that an enduring solution to their compliance issue over SLC 14(20) is reached. They have stated in past requests for consents that the obligation in SLC 14(20) is not compatible with their UoS charging methodology of replicating DNO charges. This methodology of replication has been adopted by IDNOs for all categories of customer, in order that they comply with their relative price control<sup>6</sup> and their licence obligation to have a clear, cost reflective UoS charging methodology statement in place.

*We invite comments on whether the current licence obligation in SLC 14(20) is compatible with IDNOs' licence obligations under BA2 (or special condition G1) and their UoS charging methodologies.*

As stated above, some IDNOs already have temporary licence consents in place. These consents specify that a reduced notice period is only applicable where the IDNO charge replicates that of the host DNO. Where the IDNO charge does not replicate that of the host DNO then the IDNO is still, therefore, required to provide 3 months' notice.

*Should the Authority conclude that this is an issue which needs addressing, we invite views on whether anything other than granting consents similar to those previously issued, but on an enduring basis, would be an appropriate solution.*

*Further, we invite views on what the period of time an enduring consent should include for those IDNO charge changes which simply reflect the host DNO charge changes.*

### **Impact assessment**

We consider that either the granting of an enduring consent for IDNOs to provide a lesser notice period of UoS charge changes, or individual IDNO licence modifications to the same effect, would have a minimal impact on industry stakeholders. Any enduring licence consent issued under SLC 14(20) issued by the Authority would only cover those IDNO charges which reflected the host DNO charges. Thus the notice period suppliers receive of charge changes will not alter from the status quo. Consequently, we do not consider that it is necessary to undertake an impact assessment of the potential changes.

We look forward to receiving your views and would ask that any responses are submitted electronically to [distributionpolicy@ofgem.gov.uk](mailto:distributionpolicy@ofgem.gov.uk) by **Monday 15 December 2008**. Any questions on this letter should be directed to Mark Askew at [mark.askew@ofgem.gov.uk](mailto:mark.askew@ofgem.gov.uk) or on 0207 901 7022.

Yours faithfully,



Rachel Fletcher  
**Director, Distribution**

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methodology in place which states that for the overwhelming majority of instances, their UoS charges for all customers will replicate those of the host DNO.

<sup>5</sup> These companies are IPNL, ENC, Energetics and ESP.

<sup>6</sup> The relative price control effectively caps the UoS charges which IDNOs can levy to domestic customers to the same level as the host DNO charges.