



*Promoting choice and
value for all customers*

IDNOs, DNOs, suppliers,
generators and other interested
parties

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Dear Colleague,

Decision 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

On 3 November 2008 the Authority published a consultation¹ which asked for views on whether the obligation in the Electricity Distribution Licence for all Licensees to provide 3 months' notice of use of system (UoS) charge changes should be reduced for IDNOs and DNOs operating out of area². This consultation closed on 15 December 2008.

IDNO UoS charges and DNO out of area charges for domestic customers can be no higher than those of the host DNO charges by virtue of the price control in place under licence condition BA2 IDNO (or special condition G1 DNO³). 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 standard licence condition (SLC) 13) to have a UoS methodology statement in place.

SLC 14.20 requires all distributors to give 3 months notice before amending charges. For IDNOs (and DNOs operating out of area) they can only give this notice after the host DNOs have issued their notice of charge changes. IDNOs have commented that it is not possible for them to implement the new charges at the same time as the host DNO while also giving 3 months notice of the changes. IDNOs often own and operate networks in multiple Distribution Service Areas (DSAs). Ahead of providing their own notice IDNOs have to receive and recognise all DNO charge changes, modify their systems and prepare the notice of charge changes. These activities can take weeks rather than hours.

Given these administrative problems, some IDNOs⁴ have applied for and been granted temporary licence consents under SLC 14.20 allowing them to provide 2 months' notice of UoS charge changes for those tariffs which simply replicate those of the host DNO. The Authority granted these consents on the basis that they would have a minimal impact on

¹ 149/08 is available on Ofgem's website at:

<http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/Consultation%202.pdf>.

² Henceforth, unless stated otherwise, please read IDNO to refer to both IDNOs and DNOs operating out of area.

³ 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. The term IDNO in this letter also refers to DNOs operating out of area.

⁴ These are Independent Power Networks Limited (IPNL), ESP Electricity (ESP), The Electricity Network Company (ENC) and Energetics.

suppliers as they will have already have received three months' notice of UoS charge changes for each DSA from the host DNO.

Respondents' views

Our consultation letter outlined three questions on which we welcomed views:

- 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.
- Whether the granting of an enduring licence consent would be an appropriate solution to the issue.
- What the enduring consent should require from IDNOs in terms of a notice period where the UoS charge changes simply reflect changes to the host DNO.

We received 9 responses to our consultation, 4 from DNOs and 3 from IDNOs, and 2 from suppliers⁵. All respondents except Electricity North West (ENW) considered that the licence obligation in SLC 14.20 is not compatible with IDNOs' obligations under BA2 (or special condition G1) and their UoS charging methodologies.

ENW commented that IDNOs should be able to provide 3 months' notice that they would be replicating the host DNO charges. ENW went on to comment that the actual charges could be published at a later date. However, there was widespread support for the issuing of enduring consents. Scottish and Southern Energy (SSE) commented that such enduring consents seemed 'reasonable and appropriate'. The Electricity Network Company (ENC) commented that whilst other options to deal with this issue are available, that the enduring consent is the most pragmatic way forward. Energetics considered that issuing such consents provides an opportunity to solve the contradiction between BA2 and SLC 14.20.

British Gas stated that they supported the principle of a reduced notice period for IDNOs who replicate host DNO tariffs. EDF Energy commented that an enduring consent for a lesser notice period 'is both pragmatic and reasonable'. They also stated that it is reasonable for such a consent only to apply to those IDNO tariffs which are replicating the host DNO charges.

ENC provided some further comments on the length of the notice period which the enduring consents should reference. They highlighted that the period of notice which DNOs are asked to provide may change in the future. In order to take account of any future changes in the DNO obligation, ENC commented that the IDNO consent should refer to a time period 1 month less than that provided by the DNO.

ENC commented that whilst at present they replicate all host DNO tariffs, in the future they may wish to create their own tariffs. In order to comply with BA2, ENC state that the host DNO tariffs would need to be known before they could calculate their own tariffs. Consequently they stated that a reduced notice period should be applicable to all IDNO tariffs and not just the ones which replicate the host DNO charges. However, ENC note that this is an issue which could be dealt with a later date.

ENC further commented that given the dynamic nature of the industry, the consents should include a provision whereby they can be terminated.

Energetics highlighted that they did not consider that suppliers would be affected by the granting of enduring consents as they could have confidence that IDNOs would only provide a lesser notice period of charge changes where those changes mirrored the charges of the host DNO.

⁵ The responses came from Western Power Distribution (WPD), Central Electric (CE), Electricity North West (ENW), Scottish and Southern Energy (SSE), Energetics, ENC, ESP, EDF Energy and British Gas.

The Authority's decision

The Authority agrees with 8 of the 9 respondents that the obligations contained within SLC 14.20 are incompatible with IDNOs' UoS charging methodology statements produced in order to comply with the obligations in amended condition BA2 (special licence condition G1) and SLC 13.

The Authority considers that extending the consents which have been granted to IDNOs in the past is the most pragmatic solution to the issue. This is also the tidiest solution as it will prevent the current situation where IDNOs have to apply for a new consent against SLC 14.20 every 6 months when DNOs make UoS charge changes.

The Authority recognises ENW's opposing view that IDNOs should be able to provide 3 months' notice that they will adopt the host DNO charges. However, the obligation under SLC 14.20 is to amend its UoS charges (with proposals and explanations). A notice which states that the IDNO will replicate host DNO charges does not constitute an amendment of charges and therefore would not satisfy SLC 14.20.

The Authority has considered the comments provided by ENC and considers it appropriate that the consent contains a clause by which the Authority can terminate the consent if it decides that it is no longer appropriate and has informed the IDNOs in writing as such. The Authority further considers that notice period to which the consent makes reference should be one month less than the notice provided by the host DNO. This enables the consents to remain effective should the standard notice period of 3 months ever be amended.

However, the Authority does not consider that the consent should apply to all IDNO UoS charges and deems that they are applicable solely to those charges which replicate the host DNO charges. Amended condition BA2 caps IDNO charges to the level of the host DNO charges only for domestic customers. Therefore, if in the future IDNOs wish to amend their current UoS charging methodology and start calculating their own tariffs, suppliers may not have the comfort that they will receive 3 months' notice of IDNO non-domestic charges as these charges can be higher than those of the host DNO. Any deviation from this principle would not provide suppliers with the comfort that they will always receive 3 months' notice of charge changes.

Given this decision we will grant enduring consents along the lines set out above to IDNOs upon request.

If you have any questions relating to this letter at all please contact Mark Askew at mark.askew@ofgem.gov.uk or on 0207 901 7022.

Yours faithfully,



Rachel Fletcher
Director, Distribution
Duly Authorised by the Authority