

## Modification Proposal

**Modification number: 0015Y/2009 – Revision to reflect the move to the common distribution charging methodology (CDCM) for LV and HV demand and generation customers, removal of losses methodology and general housekeeping changes including changes to licence condition numbering.**

This change request supports the collective licence modification proposed by Ofgem and agreed by the DNOs which came into being in July 2009. The changes to our current methodology statement facilitate the transfer of the LV/HV methodology to the shared governance arrangements. The removal of the losses appendix also ensures consistency of approach with other DNOs.

The change request also completes house-keeping changes in particular with respect to the licence numbering completed in June 2008.

**Date Submitted: 08 September 2009**

**Version number: 1.0**

**Date Approved:**

**Date Rejected:**

**Proposed Implementation Date: 1<sup>st</sup> November 2009**

If the Authority issues a non veto to this proposal we will implement the revised methodology on the 1<sup>st</sup> November 2009.

Should the Authority notify us within 28 days of receiving this report under section 13.6 of the licence that:

- (a) we should not make the modification; or
- (b) that it intends to consult.

Then a new implementation date will be agreed with the Authority following a review of its decision.

### Details of Proposal:

On 1 October 2008 Ofgem held a statutory consultation on a collective licence modification (CLM) proposal (the 'October proposal') to require the distribution network operators (DNOs) to bring forward a common distribution charging methodology and common governance arrangements for implementation by 1 April 2010. The October proposal was supported by a majority of DNOs, but it was blocked as a result of the statutory objections registered by two DNOs holding four distribution licences, both of whom disagreed with the Ofgem decision to require DNOs to apply a long run incremental cost (LRIC) methodology as the foundation for extra high voltage (EHV) charging.

Following consultation in December 2008, in March 2009 Ofgem published a decision document on next steps for the structure of charges project. In this document Ofgem decided that it would be appropriate to split the structure of charges project between delivery at the high voltage and low voltage (HV/LV) levels and delivery at the extra high voltage (EHV) levels on the distribution networks. For the HV/LV network Ofgem decided that it would be appropriate for the DNOs to implement a common charging methodology and governance arrangements for implementation by April 2010. This change request documents the changes required to the YEDL and NEDL charging methodologies in order to facilitate transfer to the LV/HV joint methodology proposal. Specifically the changes include:

- changes to section 3 to reflect the use of the common distribution charging

methodology (CDCM) for HV and LV use of system charges;

- amendment of section 5 (generation charges) to refer only to EHV generation;
- the removal of section 6 (application of use of system charges); and
- the removal of appendix 1 (losses methodology).

This change would apply to both Northern Electric Distribution Ltd (NEDL) and Yorkshire Electricity Distribution plc (YEDL).

A change-tracked copy of our existing YEDL statement is attached for reference. We intend to utilise this new methodology from 1 November 2009 subject to a non-veto by the Authority.

We have also taken the opportunity to do a house-keeping change to align with the standard conditions of the electricity distribution licence that were reviewed and consolidated on 1<sup>st</sup> June 2008. Some of the licence conditions have been renumbered and this proposal seeks to update the references to these conditions in our statement so that they are accurate.

#### **Description of the changes:**

1. To change the “effective from” date on the front cover to 01 November 2009.
2. To change the version number on the front cover to 1.9.
3. To change the reference to ‘Condition 4’ in the second paragraph of page 1 to ‘Condition 13’.
4. To change the licence reference to condition 13 in section 2.1 and to reflect the current licence drafting of the relevant objectives.
5. To change the reference to ‘Condition 4A’ in section 2.3 to ‘Condition 14’.
6. To change the reference to ‘Condition 4B’ in the seventh paragraph of section 2.4 to ‘Condition 14’.
7. Revised section 3 to now refer to the common distribution charging methodology (CDCM) for HV and LV use of system charges.
8. Revised section 5 to refer to only EHV generation charges as both HV and LV will now be covered under the CDCM.
9. Removed section 6 – application of use of system charges, which is now covered in the CDCM.
10. Update to the version control section 9 now section 7.
11. Removal of appendix 1 losses methodology – this will now be published on our website as a standalone document

A change-tracked copy of our existing statement, detailing the above changes, is attached for reference.

#### **Licence objectives:**

The use of system charging methodology has the following relevant objectives set out in standard licence condition 13:

- (a) that compliance with the methodology facilitates the discharge by the licensee of the obligations imposed on it under the Act and by the licence;
- (b) that compliance with the methodology facilitates competition in the generation and supply of electricity, and does not restrict, distort, or prevent competition in the transmission or distribution of electricity;

- (c) that compliance with the methodology results in charges which reflect, as far as is reasonably practicable (taking account of implementation costs), the costs incurred by the licensee in its distribution business; and
- (d) that, so far as is consistent with sub-paragraphs (a), (b) and (c), the methodology, as far as is reasonably practicable, properly takes account of developments in the licensee's distribution business.

#### **Why the proposal better meets the objectives:**

In order to meet the relevant objectives above, we believe that there is a need to revise our existing approved methodology in particular with respect the move to the new CDCM methodology, this better meets relevant objective (c). Our existing methodology statement would no longer be relevant for LV & HV demand and generation customers, therefore we need to reflect this. There is no change to our methodology for EHV demand and generation customers as the changes reflect the removal of references to LV & HV only.

We have also taken this opportunity to carry out some housekeeping changes. Which include changes in the numbering of standard conditions of the electricity distribution licence which are now incorrect in our current methodology statement. We will be more efficient in discharging our obligations under the licence if the licence conditions are properly referenced in our statements therefore better meeting relevant objective (a).

It should be noted that there are no consequential impacts on other industry documents.

#### **Conclusions:**

This change request supports the collective licence modification proposed by Ofgem and agreed by the DNOs which came into being in July 2009. The changes listed in the proposal will ensure that there is consistency in the charging methodologies of all DNOs at LV and HV. The changes to our current methodology statement facilitate the transfer of the LV/HV methodology to the shared governance arrangements. The removal of the losses appendix also ensures consistency of approach with other DNOs.

The change request also completes house-keeping changes in particular with respect to the licence numbering changes completed in June 2008.

Subject to a non-veto we will implement this change on 1<sup>st</sup> November 2009.