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Rachel Fletcher
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01 October 2009

Dear Rachel

Derogation request

As you are aware Electricity North West Limited has actively participated throughout the development of the Common Distribution Charging Methodology (CDCM) and is committed to delivering the necessary changes to process and systems to deliver the CDCM as per our licence obligations. When the Common Methodology Group and its work streams were formed in October 2008 we sought the early engagement of our IT and business service providers as we were conscious that significant change might be required to our billing system's functionality and business processes. This early and continued involvement has enabled us to firstly respond positively to the Common Methodology Group's consultation in June 2009 and secondly to provide further information for the 'Areas of Risk' section in the CDCM submission delivered to Ofgem on 25 August 2009.

The message we have provided to our stakeholders in both sets of correspondence is that ENW will deliver the majority of changes required to systems and processes for the implementation of the Common Distribution Charging Methodology on 1 April 2010. However, there are a small number of changes that we intend to defer until after April 2010 to minimise the risk of not delivering the majority of the system and process changes. Overall, we expect to spend in the region of £[redacted] changing our billing systems and processes to deliver the requirements of the Common Distribution Charging Methodology.

I am writing to you to seek a definite derogation to relieve Electricity North West Limited of number of minor requirements specified within the Common Distribution Charging Methodology Statement for a short duration. This will have minor impact on the suppliers (and their customers) for the duration of the derogation. I have attached our derogation application to this letter.

Electricity North West Limited
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As we move through the implementation phase for the Common Distribution Charging Methodology ENW will continue to update its stakeholders on its progress using a range of communications media.

Please do not hesitate to contact Tony McEntee on 01925 534499 if you have any queries on the application.

Yours sincerely,

Paul Bircham
Regulation Director

Derogation application

Applicant: Paul Bircham, Regulation Director
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Description of expected non-compliance

On 25 August 2009 Electricity North West Limited (ENW) submitted along with the other thirteen regional distribution network licensees the Common Distribution Charging Methodology (CDCM) submission package to the Authority. Appendix E (Areas of Risk for the Delivery of the Common Distribution Charging Methodology) contained a generic list of risk areas for all licensees and a separate list of risk areas specific to ENW.

ENW holds a distribution licence and is seeking a definite derogation from the Authority to relieve it of licence condition 50.13 as it expects that on 1 April 2010 it will not be able to comply with the parts of tariff application requirements, detailed below, of Appendix B, Part 2 – Tariff structure and application of the CDCM.

ENW expects not to be able to comply in the following areas:

1. **Exceeded Capacity**

The current functionality of the ENW's site specific billing system delivers capacity charges based on the following calculation[1]:

The chargeable supply capacity (kVA) shall, for any month, be the highest of:

- the Supply Capacity in that month;
- the Supply Capacity in any of the previous eleven months; or
- the Authorised Supply Capacity.

During discussions on the development of the CDCM this was defined as the '12 month rolling' approach to capacity charging and this approach was not adopted as part of the CDCM. Therefore ENW expects not to comply with the following clause of the CDCM Statement:

"150. Where a customer takes additional capacity over and above the MIC without authorisation, the excess will be classed as exceeded capacity. The exceeded portion of the capacity will be charged at the same p/kVA/day rate, based on

[1] Extract from the current Statement of Charges for Use of Electricity North West Limited's Electricity Distribution Network.

the difference between the MIC and the actual capacity. This will be charged for the duration of the month in which the breach occurs."

2. pence/site/day and pence/kVA/day

The current functionality of the ENW's site specific billing system delivers charges for both NHH and HH metered customers on a pence/site/month or pounds/kVA/month. Therefore ENW expects not to comply with the following clause of the CDCM Statement:

"133. Structure of the HH demand charges:

(a) Fixed charge p/MPAN/day;
(d) Capacity charge p/kVA/day."

Reasons for the expected non-compliance

There are a significant number of changes to Electricity North West's IT systems in order to accommodate the common tariff structure and common tariff application as specified within Appendix B, Part 2 of the CDCM Statement. Due to the extent of the changes ENW placed an order at the end of July 2009 with our IT service provider. The costs associated with this contract are in the region of £[redacted].

The number and complexity of changes means that all cannot be delivered by April 2010, and ENW has prioritised the changes in order to minimise the impact on suppliers and their customers. These changes affect both our Supercustomer and site specific billing engines and their associated systems and to deliver these changes will require significant resources from within ENW and its services providers. The planned change programme co-ordinates these changes for delivery by April 2010 assuming a low/medium level of risk. Rather than increase the level of risk of the programme in an attempt to deliver all the requirements by April 2010 ENW has prioritised the changes and stretched the delivery period up to December 2010 for those areas affected described above. ENW believes that the following areas are deliverable by April 2010.

1. Proposed generator tariffs (including provision of credits);
2. Proposed Time of Day tariffs for HH read customers;
3. Proposed move to bill Profile class 5 – 8 on profiled data rather than site specific;
4. Proposed move to bill unmetered NHH customers on profiled data rather than site specific; and
5. Proposed changes to the Excess Reactive Power calculations.

The approach to LDNO tariffs and the processing of data to support the tariffs are still under development. Until the requirements are well defined it is difficult to progress an IT solution further, however we expect to be able to support a manual solution in April 2010.

Impact of the non-compliance

The two potential areas of non-compliance, raised above, do not impact on security of supply, competition, sustainable development or health & safety. But do affect the suppliers and consumers in the following ways:

Exceeded Capacity – ENW has undertaken an impact assessment to evaluate the effect the derogation will have on suppliers and their customers. There are around 6,700 half hourly metered customers connected at LV and HV. We took a random sample of 110 half hourly metered customers and reviewed the last twelve months data. Of these, 50 customers exceeded their maximum import capacity sites. The review showed that the new methodology reduces the monthly capacity charge on average by 10%. As the capacity charge is generally 35% of an average bill then for those customers that exceeded their capacity will receive a monthly bill which is 3.5% higher until the derogation is removed. This has to be set in context as this group of customers will, on average receive a 15% reduction in the average bill from the introduction of the CDCM.

pence/site/day and pence/kVA/day - The impact of the change of approach from £/month to p/day charging will have a negligible impact on Suppliers and their customers. The normal use of system billing process is only affected as ENW effectively bills daily for Change of Supplier, De-energisation, New connection, Re-energisation, Change of Measurement Class and Disconnection processes. A normal supplier bill based on a month is calculated as 365 days divided by 12 i.e. 30.4 days per month. The only impacted area is that it will charge based on 30.4 days (365/12) for the normal monthly bill rather than, 28, 29, 30 or 31 days dependant upon the month in question. Over the six months in question the average is 30.5 which is less than the charge that will be applied during the period in question.

April – 30 days

May – 31 days

June -30 days

July -31 days

Aug – 31 days

Sept - 30 days

Calculation (30+31+30+31+31+30)/6 = 30.5 days per month.

Mitigation actions

Exceeded Capacity - ENW will continue to engage with its consumers to agree their capacity requirements in order to limit the impact in this area. We believe that there is no temporary system modification without actually delivering the billing system code change to amend the algorithm for exceeded capacity to deliver the CDCM solution.

pence/site/day and pence/kVA/day – ENW do not believe there is a need for any mitigating action since the impact is negligible and in the suppliers favour.

Proposals for restoring compliance

ENW will deliver the system and process changes to comply with the requirements of the CDCM statement.

Duration of the derogation

ENW expects to return to compliance for the charging functionality to deliver Exceeded Capacity and pence/day charges by 30 September 2010.