

Derogation application

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Description of expected non-compliance

On 25 August 2009 Central Networks East and Central Networks West (Central Networks), along with the other twelve regional distribution network licensees, submitted the Common Distribution Charging Methodology (CDCM) package to the Authority. Appendix E of this package (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 particular licensees, including Central Networks. The specific areas of risk identified by Central Networks were as follows:

- Reactive power charge – proposed application
- Capacity charge calculation
- Portfolio tariffs – calculation of network usage proportion
- Special modified demand tariffs, not part of the CDCM common list

The first two of these risks relate to our billing system functionality, and it is the first of these that is the subject of this derogation request.

Since the CDCM was submitted, we have obtained confirmation that it will be possible to modify our site-specific billing system in ways which will overcome the anticipated need for derogation in respect of capacity charge calculation. However, our billing system provider has indicated that modification to overcome issues over the billing of charges for excess reactive power, while technically possible, is likely to cause severe system performance issues that will put at risk our ability to produce half-hourly bills.

In the light of this advice, we have decided not to proceed with the modification for reactive charges. This will mean that details of the way in which we calculate amounts of excess reactive power will be different to that described in the CDCM.

In parallel to the modification of our existing billing system, we have started the process of acquiring a new integrated (supercustomer and site-specific) billing system, which will be fully compliant with the requirements of the CDCM. We anticipate that this new system will come on-line by April 2011.

Central Networks holds two distribution licences, and is seeking a definite derogation from the Authority to relieve it of licence condition 50.13 in respect of each licence. The reason for seeking derogation is that we expect that on 1 April 2010 we will not be able to comply with the parts of tariff application requirements set out in paragraphs 160–169 of the CDCM, as detailed below.

Reactive power charges

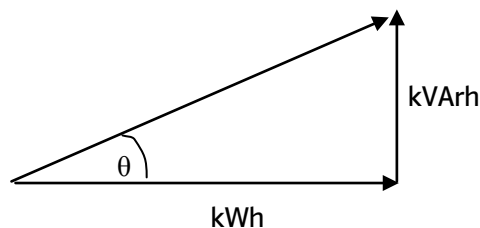
The current functionality of the Central Networks' site specific billing system delivers reactive power charges based on the following extract from our charging statement:

2.8 Reactive Power Charge

2.8.1 *The excess reactive power charge applies when a site's total reactive power (measured in kVArh) exceeds 33% of total active power (measured in kWh) in a billing period. This threshold is equivalent to an average power factor of 0.95 during the period. Any reactive units in excess of the 33% threshold are charged for at the rate appropriate to the particular tariff.*

2.8.2 *Average Power Factor is calculated as follows:*

$$\text{Cos } \theta = \text{Power Factor}$$



2.8.3 *The chargeable reactive power is calculated as follows:*

$$\text{Chargeable KVArh} = \text{Total KVArh} - (0.33 \times \text{Total kWh})$$

This is chargeable only where the above equation results in a positive number.

The CDCM requires an approach which relies on the summation of calculations for each individual half-hour.

Reasons for the expected non-compliance

The reason for this non-compliance lies in our current site-specific billing system, and is of an interim nature. We are advised that modification of the current system to overcome issues over the billing of charges for excess reactive power, while technically possible, is likely to cause severe system performance issues that will put at risk our ability to produce half-hourly bills. This would clearly be unacceptable to both suppliers and ourselves, and we do not therefore propose to make this particular modification to the system.

The non-compliance will be permanently resolved with the implementation of a new billing system, planned to be operational by April 2011.

Impact of the non-compliance

The non-compliance will not impact on security of supply, competition, sustainable development or health & safety; but will affect the suppliers and consumers. Charges for excess reactive power will continue to be calculated in the same way as currently until our billing system is replaced by April 2011.

Mitigation actions

No mitigation is proposed

Duration of the derogation

Central Networks expects to return to compliance when the new billing system is commissioned. It is currently anticipated that this will be by April 2011. Derogation is therefore sought for the period from **1 April 2010 to 31 March 2011**.