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Rachel Fletcher  
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*Our Ref*

*Your Ref*

*Direct Line*

*Date*

26th August 2009

Dear Rachel

**REQUEST FOR A DEROGATION UNDER PART J OF STANDARD LICENCE CONDITION  
50 OF THE DISTRIBUTION LICENCE**

In accordance with Part J Standard Condition 50. (Development and implementation of a Common Distribution Charging Methodology), of the Distribution Licence, Western Power Distribution (South West) plc is seeking a derogation from Paragraph 50.13 of Part C of the Condition, namely the requirement to implement the Common Charging Methodology the "CDCM" in compliance with the requirements of that Condition.

**Details of applicant**

Alison Sleightholm  
Regulatory & Government Affairs Manager  
Western Power Distribution (South West) plc  
Avonbank  
Feeder Road  
Bristol BS2 0TB

**Description of non-compliance**

Paragraph 50.13 of SLC50 Part C requires that WPD must implement the CDCM that has been developed in conjunction with every other Distribution Services Provider by the Implementation date specified by the Authority in accordance with the requirements of Part B of the Condition, the Relevant Objectives.

The CDCM has been developed through the DNOs Common Methodology Group "the CMG", as a model that produces charges for end users and charges to embedded licensed networks ("IDNOs").

See Attachment 1 for detail of each non-compliance.

**Impact on Competition**

See Attachment 1 for detail of each non-compliance.

**Impact on sustainable development, health & safety or other parties**

We do not believe that there is an impact on sustainable development or health & safety.

**Proposal for restoring compliance**

See Attachment 1 for detail of each non-compliance.

**Alternative Actions Considered**

See Attachment 1 for detail of each non-compliance.

**Proposed duration of derogation**

See Attachment 1 for detail of each non-compliance.

Yours sincerely



Alison Sleightholm  
Regulatory & Government Affairs Manager



**Attachment 1**

<b>Description of non compliance</b>	<b>Impact on Competition</b>	<b>Proposal for Restoring Compliance</b>	<b>Alternative Action Considered</b>	<b>Action in Mitigation</b>
<p>Capacity Values and Reactive Power Charges - unable to calculate charges on a half hour by half hour basis, and calculate the true kVA, and to differentiate between reactive units used between active import and active export periods.</p>	<p>Customers who generate reactive units whilst exporting will be charged for those units if in excess of the threshold. Customers with a high reactive power demand, used infrequently, may not be charged the excess reactive power charge.</p> <p>The total annual revenue from reactive power charges is less than £0.4m.</p> <p>The calculation of capacity value will only impact sites that exceed their maximum import capacity.</p>	<p>We are working with IBM to establish detailed specifications for system changes, implement the required changes and undertake adequate testing and user acceptance to ensure continued accuracy of DUoS billing.</p> <p>We anticipate the necessary changes to the billing system, including testing and verification checks, to be complete by October 2010.</p> <p>The requirement to make the changes for multi-site billing makes the solution significantly more complex.</p>	<p>We intend to continue charging using the current methodology and billing system, without system changes.</p>	<p>We are able to implement a proportion of the CDCM proposals i.e. charge for reactive units where the power factor is worse than 0.95. This can be done by charging for all RI units recorded in excess of 0.33 X AI by changing the 0.5 factor currently applied to 0.33. The indicative charges for 2009/10 for excess reactive power are all lower under the proposed methodology and therefore we propose to use the prices generated by the new method.</p>
<p>De-energised MPANs – unable to suppress automatic billing for either capacity or unit charges for de-energised sites</p>	<p>Customers on de-energised sites will continue to be charged.</p> <p>Recent analysis shows that charges to de-energised</p>	<p>We are working with IBM to establish detailed specifications for system changes, implement the required changes and undertake adequate</p>	<p>We intend to continue charging using the current methodology and billing system, without system changes.</p>	<p>We are able to identify de-energised sites and will reduce the 'agreed capacity' to zero.</p> <p>Sites where no units</p>

	<p>sites are in the order of £30k per month. The proposed mitigation should reduce this significantly.</p>	<p>testing and user acceptance to ensure continued accuracy of DUoS billing.</p> <p>We anticipate the necessary changes to the billing system, including testing and verification checks, to be complete by October 2010.</p> <p>The requirement to make the changes for multi-site billing makes the solution significantly more complex</p>		<p>are recorded will not be charged a capacity charge.</p> <p>If units are recorded, both units and the appropriate capacity will be charged.</p>
<p>Embedded Networks – unable to bill on the Portfolio Principle.</p>	<p>IDNOs will not benefit from a common charging methodology.</p>	<p>To implement this methodology, changes are required to the national settlements system and associated data flows. This requires a formal change proposal by Suppliers.</p> <p>Following agreement on such a change, we would need to modify our billing system to accommodate the new data flows and charging methodology.</p> <p>We anticipate that this could take some 18 months to complete.</p>	<p>We have considered the possibility of manual billing. However, we do not consider that to be appropriate because:</p> <ol style="list-style-type: none"> <li>1. Error prone due to manual processing of complex data.</li> <li>2. Complexity of reconciliation data makes the process unmanageable.</li> <li>3. Dependent on reliable, timely provision of data by IDNOs.</li> </ol>	<p>We are unable to identify any short term changes that would mitigate this situation.</p>

			<p>4. Requires billing system changes to implement, which would then need to be changed again.</p> <p>We therefore propose to continue billing on our currently approved 'boundary methodology'.</p>	
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