

Electricity Distribution Price Control Review Second Licence Drafting Consultation



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Target audience: Consumers and their representatives, distribution network operators (DNOs), independent distribution network operators (IDNOs), owners and operators of distributed energy schemes, transmission owners, generators, electricity suppliers, the Department of Energy and Climate Change (DECC) and any other interested parties.

Overview:

This document sets out our updated views on the changes to the DNOs' licence conditions that are necessary to make our proposals for the next Distribution Price Control Review (DPCR5) effective. The proposed modifications are consistent with our Final Proposals for DPCR5 which were published on 7 December 2009. This will be the second and final consultation on the licence conditions prior to the statutory licence consultation in February 2010.

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Context

On 7 December 2009 we published our Final Proposals for the Electricity Distribution Price Control Review (DPCR5). That document set out our final decisions on the revenues each of the 14 DNOs should be allowed to collect from their business and domestic customers between 2010 and 2015. We explained in that document the outputs and levels of service customers can expect from the DNOs over this period in return for what they pay. We also explained the incentives to improve performance and the obligations on DNOs that we will introduce as part of the price control settlement.

The DNOs have until 6 January 2010 to accept or reject our Final Proposals. If the DNOs accept our proposals, we will publish a statutory consultation on the licence conditions in February 2010 to bring these proposals into force. If any company rejects our proposals then we intend to refer the matter to the Competition Commission.

Before the statutory consultation, however, we wish to give interested parties a final opportunity to comment on the licence drafting we propose to make our Final Proposals effective. This Second Licence Drafting Consultation follows on from our Initial Licence Drafting Consultation in October 2009. It now includes all licence conditions, new and amended, that we consider necessary to give effect to DPCR5. This latest draft of the licence conditions also takes into account comments received in response to our Initial Licence Drafting Consultation. In addition, it reflects comments received through the forum of the DPCR5 legal drafting working group (LDWG).

While DPCR5 primarily affects the DNOs, this document also includes changes that will impact on the IDNOs. Such changes are highlighted in the introduction to this document.

We welcome comments on the licence drafting included in this consultation document by 18 January 2010.

Associated Documents

- Electricity Distribution Price Control Review - Final Proposals, 7 December 2009 (Ref. 144/09)
http://www.ofgem.gov.uk/Networks/ElecDist/PriceCtrls/DPCR5/Documents1/FP_1_Core%20document%20SS%20FINAL.pdf
- Electricity Distribution Price Control Review - Final Proposals - Incentives and Obligations, 7 December 2009 (Ref. 145/09)
http://www.ofgem.gov.uk/Networks/ElecDist/PriceCtrls/DPCR5/Documents1/FP_2_Incentives%20and%20Obligations%20FINAL.pdf

- Electricity Distribution Price Control Review - Final Proposals - Allowed Revenue - Cost Assessment, 7 December 2009 (Ref. 146/09)
http://www.ofgem.gov.uk/Networks/ElecDist/PriceCtrls/DPCR5/Documents1/FP3_Cost%20Assessment%20with%20SS%20comments.pdf
- Electricity Distribution Price Control Review - Final Proposals - Allowed Revenues and Financial Issues, 7 December 2009 (Ref. 147/09)
http://www.ofgem.gov.uk/Networks/ElecDist/PriceCtrls/DPCR5/Documents1/FP5_Financial%20Issues.pdf
- Electricity Distribution Price Control Review - Final Proposals - Financial Methodologies, 7 December 2009 (Ref. 148/09)
http://www.ofgem.gov.uk/Networks/ElecDist/PriceCtrls/DPCR5/Documents1/FP6_DPCR5%20Financial%20methodologies.pdf
- Electricity Distribution Price Control Review - Initial Licence Drafting Consultation, 20 October 2009 (Ref. 128/09)
<http://www.ofgem.gov.uk/Networks/ElecDist/PriceCtrls/DPCR5/Documents1/DP5%20Legal%20Drafting%2012809.pdf>

Table of Contents

Summary	1
1. Introduction	2
Introduction	2
Purpose of this document.....	3
Impact of the modifications on the IDNOs' licence conditions.....	3
Next steps	4
2. Proposed changes to licence conditions	6
Introduction	6
Charge restriction conditions	7
Standard licence conditions	8
Other and consequential changes.....	8
Appendices	14
Appendix 1 - Consultation Response and Questions	15
Appendix 2 – The Authority’s Powers and Duties	17
Appendix 3 - Glossary.....	19
Appendix 4 - Feedback Questionnaire	22

Summary

Ofgem regulates the 14 monopoly regional distribution network operators (DNOs) to protect the interests of present and future consumers. We set a price control every five years that sets the maximum revenues that each DNO can collect from customers at a level that allows an efficient business to finance its activities. We also place incentives on DNOs to innovate and find more efficient ways to provide an appropriate level of network capacity, security, reliability and quality of service.

The current price control expires on 31 March 2010. The electricity distribution price control review (DPCR5) will set the price control for a five year period from 1 April 2010. We need to ensure that the necessary modifications are made to electricity distribution licences to give effect to DPCR5.

In October 2009 we published an Initial Licence Drafting Consultation setting out our proposals for the modifications to electricity distribution licences that would be required to implement the key policy issues in DCPR5. The Initial Licence Drafting Consultation was based on our Electricity Distribution Price Control Review Initial Proposals.

On 7 December 2009 we published the Electricity Distribution Price Control Review Final Proposals. This Second Licence Drafting Consultation document now contains all of the licence modifications that will be required to implement our final decisions as set out in our Final Proposals. It also incorporates some of the comments received from respondents to the Initial Licence Drafting Consultation.

This document sets out both the standard licence conditions and special licence conditions (now referred to as charge restriction conditions) that will implement the new price control. It also highlights further consequential work we will need to undertake to finalise the licence conditions. This will include, for example, a review of all of the definitions to ensure all terms that need to be defined are defined and that any redundant terms are removed. It will also include a review of the standard licence conditions relating to the current regulatory instructions and guidance (RIGs) and amendments and additions, as appropriate, to these conditions (and possibly other conditions) to reflect the new consolidated RIGs structure we propose to introduce.

Most of the draft text has been discussed with the DNOs through the forum of the DPCR5 legal drafting working group. However, it should be noted that none of these drafts have been agreed by the DNOs.

Some of our proposed modifications will also apply to independent distribution network operators (IDNOs) to ensure customers have the same level of protection regardless of whether they are connected to the network of a DNO or an IDNO. We highlight in this document where that will be the case.

1. Introduction

This chapter sets out the purpose of the document, summarises the proposed licence modifications that are likely to affect electricity distribution network operators (DNOs) and independent electricity distribution network operators (IDNOs), and explains how the document is organised.

There are no specific questions in this chapter.

Introduction

1.1. The 14 DNOs are regional monopolies. Customers rely on Ofgem to regulate them effectively as they cannot, for example, switch their network provider if they do not like the price or service they are offered. We set the total revenues that DNOs can collect from customers and we place incentives on DNOs to innovate and find new ways to improve their efficiency and quality of service. This is achieved through a price control which is set every five years. The current price control expires on 31 March 2010.

1.2. We have now published our Final Proposals in which we set out:

- the behaviours that customers expect from DNOs and how we can encourage these,
- the revenues the DNOs need in order to meet their legal and statutory objectives, as well as the specified behaviours, and
- the appropriate balance of risk and reward in the settlement, including the scope for the DNOs to outperform or underperform on the returns offered to shareholders.

1.3. The DNOs have until 6 January 2010 to accept or reject our proposals. If the DNOs accept our proposals, we will need to reflect the new arrangements in the DNOs' licence conditions and these will need to be in place by 1 April 2010.

1.4. The new arrangements will also require new regulatory instructions and guidance (RIGs). RIGs are intended to facilitate the collection of information on a common basis and to an appropriate degree of accuracy by each DNO. This is to enable Ofgem to monitor compliance by each DNO with the price control conditions.

1.5. Two new statutory instruments (or regulations) are also required to give effect to our Final Proposals. We propose to amend the Electricity (Standards of Performance) Regulations 2005 (SI 2005 No 1019). We also propose to create a new statutory instrument concerning connection guaranteed standards, namely the Electricity (Connection Standards of Performance) Regulations. Our updated proposals in relation to these two statutory instruments have been published today

by way of two separate open letter consultations. We invite interested parties to respond to these consultations by 11 January 2010.

1.6. In addition, DNOs should have regard to our Final Proposals which explain how we expect to deal with certain issues in the course of the price control period (where we have not addressed these issues elsewhere, e.g. in the licence conditions). This is especially relevant to DNOs wishing to understand how we are likely to treat certain reopeners for costs that are currently uncertain (whether this is due to uncertainty concerning the level of the costs to be incurred or the likelihood of the cost being incurred).¹

Purpose of this document

1.7. With the publication of Final Proposals, our policy for DPCR5 has been finalised. This consultation document is intended to include all of the licence drafting necessary to make the Final Proposals effective.

1.8. As noted in our Initial Licence Drafting Consultation document, we have been working closely with the DNOs to prepare the necessary licence conditions, RIGs and statutory instruments. The DNOs have continued to provide valuable input through the forum of the DPCR5 legal drafting working group (LDWG). The LDWG will continue to meet until the licence modifications are finalised, which is expected to be in February 2010.

1.9. However, we want to ensure that all interested parties have the opportunity to comment on the draft licence conditions in this second and final consultation prior to the statutory consultation in February 2010.

1.10. We would underline to all interested parties, including DNOs, that comments are invited on our legal drafting only (form, structure, etc). Comments on policy will not be considered. As noted in paragraph 1.7 above, our policy for DPCR5 has been finalised in our Final Proposals.

Impact of the modifications on the IDNOs' licence conditions

1.11. Although DPCR5 primarily affects DNOs, certain new arrangements set out in our Final Proposals will also apply to IDNOs. This is true in particular of the quality

¹ E.g. Chapters 6 and 7, Electricity Distribution Price Control Review Final Proposals – Allowed Revenue – Cost Assessment, 7 December 2009 (Ref. 146/09):
http://www.ofgem.gov.uk/Networks/ElecDist/PriceCtrls/DPCR5/Documents1/FP_3_Cost%20Assessment%20with%20SS%20comments.pdf

of service arrangements because we consider that customers should have the same level of protection regardless of whether they are connected to a DNO or an IDNO's network.

1.12. The new arrangements that will also apply to IDNOs will be contained in:

- SLC 1 and 2 - changes to definitions and interpretation of the licence,
- SLC 12 and 14 - changes to reflect new requirements on the presentation of connection charges, and
- SLC 15A - a new condition to support the introduction of the new regulations relating to connection guaranteed standards.

1.13. New SLC 25A (Distributed Generation: Connections Guide and Information Strategy), as drafted in the appendices to this consultation document, could also apply to IDNOs. However, this will only be the case if the Authority so directs. Currently, we have no intention to extend the application of SLC 25A to IDNOs. If in future we consider it appropriate to do so, we would first consult with interested parties, including the IDNOs.

1.14. We no longer propose to consolidate the requirements to offer terms for metering point administration services and data services, as originally indicated in our Initial Licence Drafting Consultation document. We do not consider this necessary as the two conditions have different scopes of application - the former applies when DNOs are operating in their region and the latter applies to DNOs acting outside of their region.

1.15. The proposed amendments to the Electricity (Standards of Performance) Regulations 2005 and the Electricity (Connection Standards of Performance) Regulations will also apply to IDNOs. These regulations are currently the subject of parallel open letter consultations.

Next steps

1.16. Interested parties are invited to respond separately to our two statutory instrument consultations. These open letter consultations started today and are due to close on 11 January 2010.

1.17. We will hold a statutory licence consultation on the licence modifications (both standard licence conditions and charge restriction conditions) necessary to give effect to our Final Proposals in February 2010. Those licence conditions will reflect comments received in response to this consultation and the ongoing input of the LDWG.

1.18. We published an update letter on 17 December 2009 setting out our proposed framework for the RIGs. Instead of the current four RIGs, we propose to have three RIGs, covering cost and revenue reporting, network asset data and performance reporting, and customer service reporting. We hope to publish draft RIGs along with

associated spreadsheets setting out the reporting requirements in February 2010, alongside or just after the statutory licence consultation. We will publish the final version of the RIGs by the end of March 2010.

1.19. The licence drafting and statutory instrument timetable is summarised in table 1.1 below. Please note that some of these dates could be subject to change.

Table 1.1 Licence drafting and statutory instrument (SI) milestones - January to April 2010

Date	Milestone
11 January 2010	Responses to open letter consultation on guaranteed standards and connection guaranteed standards SIs
18 January 2010	Responses to Second Licence Drafting Consultation
22 January 2010	Statutory SI consultations
Late January to early February 2010	LDWG meetings with DNOs
19 February 2010	Statutory licence consultation
25 February 2010	SIs signed and sealed by the Authority SIs sent to DECC for Secretary of State consent
19 March 2010	Responses to statutory licence consultation
26 March 2010	Publication of licence modifications and SI implementation notice
1 April 2010	Licence modifications and guaranteed standards SI take effect
1 October 2010	Connection guaranteed standards SI takes effect

2. Proposed changes to licence conditions

This chapter sets out all of the licence conditions - standard licence conditions and special licence conditions (now referred to as charge restriction conditions) - that will be needed to implement our Final Proposals. At the end of the chapter we also highlight certain further changes we consider are necessary in order to finalise the licence conditions modifications.

Question 1: Are our proposed changes to the standard licence conditions appropriate?

Question 2: Are our proposed changes to the charge restriction conditions appropriate?

Question 3: Have you identified any other or consequential changes not highlighted in this chapter that we should make to the licence conditions to reflect our Final Proposals?

Question 4: Is our proposed approach to the implementation of a common connection charging template appropriate?

Question 5: Are there any definitions in the standard licence conditions or charge restriction conditions that are now redundant or need updating?

Question 6: What further detail, if any, is required in the charge restriction condition (CRC 14) that will introduce the low carbon networks fund in order to implement this new fund as set out in our Final Proposals?

Question 7: What changes are necessary to the licence conditions (in particular SLC 45 – 49) to give effect to the new consolidated structure for the regulatory instructions and guidance?

Introduction

2.1. Appendices 6 and 7 set out our proposed changes to the electricity distribution licence conditions. Appendix 6 contains the proposed changes to the standard licence conditions (SLCs) and Appendix 7 the proposed changes to the charge restriction conditions (CRCs).

2.2. We explain in this chapter the specific licence conditions that will be affected as we seek to implement our Final Proposals. We also identify at the end of this chapter other changes we are aware we need to make to the licence conditions, which we will make in time for the statutory licence consultation in February 2010.

2.3. For detail on the policy these licence conditions are intended to implement, we would refer interested parties to our Final Proposals. Links to our Final Proposals can be found in the Associated Documents section above.

Charge restriction conditions

2.4. The charge restriction conditions apply only to DNOs and also contain provisions that are specific to licensees. We have to modify these conditions at each price control review as they need to reflect the level of revenues that a DNO may recover during the review period.

2.5. In addition, as noted in our Initial Licence Drafting Consultation, we are making a number of changes to the charge restriction conditions to improve their clarity and usability. This follows on from our Electricity Distribution Licence Review (DLR) last year. One of the changes involves the reordering of the conditions into more relevant groupings, as a result of which all of the conditions have been renumbered.

2.6. We therefore propose to remove all of the current special licence conditions from 1 April 2010 and to replace them with the new charge restriction conditions listed below:

- **CRC 1** - Overview of Part 4
- **CRC 2** - Definitions for the Charge Restriction Conditions
- **CRC 3** - Restriction of Distribution Charges: Use of System Charges
- **CRC 4** - Restriction of Distribution Charges: calculation of the Allowed Pass-Through Items
- **CRC 5** - Restriction of Distribution Charges: total incentive revenue adjustment
- **CRC 6** - Restriction of Distribution Charges: Generation Use of System Charges
- **CRC 7** - Restriction of charges for the provision of Legacy Metering Equipment
- **CRC 8** - Adjustment of licensee's revenues to reflect distribution losses performance
- **CRC 9** - Adjustment of licensee's revenues to reflect quality of service performance
- **CRC 10** - Adjustment of licensee's revenues to reflect performance in relation to Transmission Connection Point Charges
- **CRC 11** - Adjustment of licensee's revenues to reflect innovation funding performance
- **CRC 12** - Adjustment of licensee's revenues to reflect performance in relation to Distributed Generation
- **CRC 13** - Licensee's Connection Activities: Margins and the development of competition
- **CRC 14** - Low Carbon Networks Fund
- **CRC 15** - Distribution Charges: supplementary restrictions
- **CRC 16** - Services treated as Excluded Services
- **CRC 17** - Charging outside the Distribution Services Area
- **CRC 18** - Assistance for high-cost distribution areas (applicable only to Scottish Hydro Electricity Power Distribution (SHEPD))
- **CRC 19** - Arrangements for the recovery of uncertain costs
- **CRC 19A** - Arrangements for the recovery of costs for an integrated plan to manage supply and demand on Shetland (applicable only to SHEPD)
- **CRC 20** - Duration of the Charge Restriction Conditions.

Standard licence conditions

2.7. The standard licence conditions apply to all electricity distributors (i.e. DNOs and IDNOs), although section B of the standard licence conditions is not switched on for (and therefore does not apply to) IDNOs.

2.8. We propose to introduce six new standard licence conditions as follows:

Section A (applicable to all electricity distributors)

- **SLC 15A** - Connection policy and connection performance
- **SLC 25A** - Distributed Generation: Connections Guide and Information Strategy.

Section B (applicable to DNOs only)

- **SLC 44A** - Network Outputs Regime
- **SLC 44B** - Distribution Losses Reporting Regime
- **SLC 45A** - Incentive Scheme for Transmission Connection Point Charges
- **SLC 46A** - Business Carbon Footprint Reporting.

2.9. We also propose to amend the following standard licence conditions to give effect to our Final Proposals:

Section A (applicable to all electricity distributors)

- **SLC 1** - Definitions for the standard conditions
- **SLC 12** - Requirement to offer terms for Use of System and connection
- **SLC 14** - Charges for Use of System and connection
- **SLC 15** - Standards for the provision of Non-Contestable Connection Services.

Section B (applicable to DNOs only)

- **SLC 33** - Definitions for the Section B standard conditions
- **SLC 44** - Regulatory Accounts
- **SLC 45** - Incentive scheme for quality of service
- **SLC 46** - Incentive schemes for innovation funding and Distributed Generation
- **SLC 47** - Reporting of Price Control Revenue Information.

2.10. There are no current standard licence conditions that we propose to remove.

Other and consequential changes

2.11. While this document contains all of the new and amended licence conditions that we consider necessary to give effect to DPCR5, we would note that there are still some changes to be made. For the most part, these changes are consequential ones (e.g. amending or removing definitions that will be outdated, or updating paragraph or licence condition numbering). There are four other changes that we intend to

make but have not been able to complete in time for this consultation. These changes are:

- the removal of special licence condition D1 (Restriction of Distribution Charges: Generation Use of System Charges) in light of the change to a single, rather than dual, revenue pot,
- confirmation of the baseline revenue allowance for each DNO in the charge restriction conditions,
- the introduction of a new common connections charging template, and
- changes as appropriate to reflect the new consolidated structure we propose to introduce for the regulatory instructions and guidance (RIGs).

2.12. We will progress these changes and reflect them in the statutory licence consultation in the New Year. In the meantime, we provide some further detail below in relation to each of these four other changes.

2.13. We note too that further changes may also be required to the charge restriction condition for the low carbon networks fund (CRC 14), which we continue to review. We would welcome comments on whether, in its current form (in the appendices to this document), it is sufficiently detailed to implement the low carbon networks fund as described in our Final Proposals.

Single revenue pot

2.14. In our Initial Licence Drafting Consultation we explained that, for the next price control period, we proposed to move away from the current restrictions placed on the portion of allowed revenues each DNO can recover from demand and generation customers. Those restrictions were in place because, at the start of DPCR4, we were not satisfied that the DNO charging methodologies would result in an appropriate recovery of allowed revenues across these two categories of customers.

2.15. From 1 April 2010 common charging arrangements (brought forward by the DNOs and approved by the Authority subject to a small number of conditions)² will take effect for customers at lower voltages (LV and HV). As a result, those customers should be subject to more cost reflective generation charges.

2.16. New, more cost reflective generation charges for customers at higher voltages (EHV) are also expected to take effect during the next price control period, from 1

² Electricity distribution structure of charges project: DNOs' proposals for a common methodology at lower voltages, 28 September 2009 (Ref. 114/09):
http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/Ofgem_CDCM_consultation%20280909_1.pdf

April 2011 (although Western Power Distribution (WPD) has had such charging arrangements in place since April 2007). From 1 April 2011 therefore common charging arrangements are expected to be in place for all customers.

2.17. In view of these changes, we proposed in our Initial Licence Drafting Consultation that we would change the current special licence conditions to allow DNOs to request the Authority's consent to apply a single revenue pot, where this appeared appropriate. On reflection and following further discussion with the DNOs, we consider it would be more appropriate to introduce a single revenue pot across all DNOs from 1 April 2010 as part of the DPCR5 package. This should, in our view, simplify the implementation of DPCR5 and is in recognition of the eventual development of the enduring charging arrangements that will use a single pot of revenue from 1 April 2011. The introduction of a single revenue pot will affect only those DNOs that accept our DPCR5 Final Proposals.³

2.18. The decision means that from 1 April 2010 all DNOs' use of system charging methodologies (where those DNOs have accepted our Final Proposals) will need to set out clearly how they will cope with a single revenue stream. In particular, this means that all DNOs will need to ensure that their SLC 13 use of system charging methodologies (i.e. EHV methodologies) are able to take a single revenue stream and apportion it between EHV and HV/LV and between demand and generation. The need to apportion the single revenue stream is because most DNOs (with the exception of WPD) have not yet implemented longer term EHV charging methodologies, which would be able effectively to credit and debit users depending on their contribution to (or deferring of) reinforcement costs.

2.19. In practice, apportioning a total single revenue pot may be achieved in more than one way, and this will depend on how DNOs currently determine their EHV charges.

2.20. If a single revenue pot is to take effect from 1 April 2010, we consider that all DNOs need to review their existing SLC 13 methodologies and raise modifications where appropriate. We require that their methodologies explain very clearly how a single revenue stream will be apportioned and charges scaled to recover allowed revenue. In this respect, each of the DNOs has discussed their plans with us and we expect that the majority of them will make changes to their methodologies.

2.21. Bearing in mind the timeframes for setting charges for April 2010 and the requirement to give 3 months' notice of changes to indicative charges, DNOs need to

³ For the avoidance of doubt, in order to give effect to the common charging arrangements (i.e. the Common Distribution Charging Methodology), a single revenue pot will need to apply across all DNOs from 1 April 2010. This will require a change to the current special licence conditions of any DNO that does not accept our Final Proposals for the next price control period.

ensure they inform customers of charging methodology developments and associated impacts on charges at the earliest opportunity.

Baseline revenue allowance

2.22. We intend to clarify in the charge restriction conditions the baseline revenue allowance the Authority has permitted for each DNO. This is necessary because, as we have highlighted to the DNOs, the profiled total allowed revenues in our Final Proposals included assumptions regarding the DPCR4 losses roller adjustment, the Innovation Funding Incentive adjustment and funding from the low carbon networks fund.⁴

2.23. In CRC 3 (Restriction of Distribution Charges: Use of System Charges) we will therefore ensure that the PU values are the baseline revenue allowances only and do not include the three assumptions indicated above, which are determined on an annual basis (in contrast to the PU values which are fixed values). We intend to deduct the estimated values for these three assumptions from the allowed revenues published in our Final Proposals.

2.24. We would note that the Final Proposals showed values in 2007/8 prices. The licence, however, will show values in 2010/11 prices. For the purposes of this consultation, we have included in CRC 3 provisional values for the PU term of baseline revenue for DPCR5, including the provisional inflation adjustment based on inflation to November 2009. We will update these values following publication of the December Retail Price Index.

Common connection charging template

2.25. We explained in our Final Proposals that we propose to introduce a quotation accuracy scheme.⁵ The quotation accuracy scheme is intended to ensure that customers, where necessary, are able to challenge the accuracy of a DNO's quotation through a simple and easy process. It will be limited to customers with up to four small service connections. We will require DNOs to develop a quotation accuracy scheme and the obligation on them to do so is set out in draft standard licence condition 15A in the appendices to this document.

⁴ Table 3.1, Electricity Distribution Price Control Review Final Proposals, 7 December 2009 (Ref. 144/09).

⁵ Paragraphs 11.15 – 11.17, Electricity Distribution Price Control Review Final Proposals – Incentives and Obligations, 7 December 2009 (Ref. 145/09). While referred to as the “price accuracy scheme” in our Final Proposals, we propose to refer to it going forward as the “quotation accuracy scheme”.

2.26. For the scheme to work, we have identified that DNOs will need to amend their charging schedules as those schedules do not currently provide customers with sufficient information about how a DNO derives its charges. To facilitate this we consider that it is appropriate to develop a common connection charging template that breaks down the components of DNOs' connection charges. We have invited an industry working group to develop the level of detail required in the template. We would underline that the common connection charging template will apply not just to small service connection customers, but also to larger connection customers (outside the scheme). We want all connection customers to be able to cross-reference their quotation against a DNO's charging template.

2.27. We propose to amend standard licence conditions 12 (Requirement to offer terms for Use of System and connection) and 14 (Charges for Use of System and connection) to make clear the obligation on DNOs to develop and comply with a common connection charging template. Our current thinking is that this is likely to require changes in particular to SLC 12.4, 14.2 and 14.5, to require charging statements to be prepared and quotations to be presented in line with the common connection charging template. It is possible, however, that we may decide to deal with this change through the introduction of a new standard licence condition which may include further detail on the preparation of the common template, as well as the process for amending it (e.g. in a similar vein to the Common Distribution Charging Methodology). This is an issue we will consider further and discuss with the DNOs in the DPCR5 legal drafting working group (LDWG). We welcome interested parties' views on the implementation of the common connection charging template in the standard licence conditions.

Regulatory instructions and guidance (RIGs)

2.28. There are currently four RIGs, but from 1 April 2010 we propose to consolidate them into three RIGs as follows:

- **Cost and revenue reporting (CRR)** - which will include all data of a financial nature and combine the current cost and revenue reporting obligations. It will also include, for example, the incentive revenue associated with the environmental aspects of our Final Proposals,
- **Network asset data and performance reporting (NADPR)** - which will include data associated with the physical network, customer interruptions, customer minutes lost, volumes of connections etc. It will also include, for example, the output related data associated with our environmental proposals, including the Business Carbon Footprint (BCF), and
- **Customer service reporting (CSR)** - which includes the customer related standards and measures.

2.29. We are currently reviewing the best way to give effect to the new RIGs structure in the licence. There are five RIG-related standard conditions (SLC 45 – 49) – one standard condition for each of the four RIGs, and one condition that contains the process for modifying the RIGs. The changes required may involve the introduction of a new standard licence condition to explain the new RIGs structure. It could also involve amendments to the current RIG-related standard conditions.

2.30. We will need to ensure that the RIGs are, where possible, consistent in their requirements (e.g. whether DNOs are required to ensure the information they prepare is audited or examined). Consistency will be important as more than one of the new RIGs could be relevant to a particular area (e.g. connections, network outputs). We will also consider whether any auditing or examination requirements on the DNOs continue to be appropriate. We will continue our review in the New Year.

Definitions

2.31. The definitions that accompany the standard licence conditions and charge restriction conditions are set out in SLC 1 and 33, and CRC 2 (as well as in the Electricity Act 1989). We will undertake a further review of the definitions in the licence conditions in due course to ensure that all relevant terms are defined and any redundant terms are removed. This is likely to be particularly appropriate in light of the introduction of the single revenue pot and the new consolidated RIGs structure.

House-keeping

2.32. We will also take the opportunity to make minor changes, where appropriate, for the purposes of improving presentation and correcting typographical errors, for example.

Appendices

Index

Appendix	Name of Appendix	Page Number
1	Consultation Responses and Questions	15
2	The Authority's Powers and Duties	17
3	Glossary	19
4	Feedback Questionnaire	22
5	Responses to Initial Licence Drafting Consultation	See Additional Appendices – Ref. 158a/09
6	Proposed changes to special licence conditions / charge restriction conditions	See Additional Appendices - Ref. 158a/09
7	Proposed changes to standard licence conditions	See Additional Appendices - Ref. 158a/09

Appendix 1 - Consultation Response and Questions

1.1. Ofgem would like to hear the views of interested parties in relation to any of the issues set out in this document. In particular, we would like to hear from DNOs, IDNOs, consumers and their representatives, owners and operators of distributed generation schemes, transmission owners, generators, electricity suppliers, the Department of the Environment and Climate Change and any other interested parties.

1.2. We would especially welcome responses to the specific questions which we have set out at the beginning of each chapter heading and which are replicated below.

1.3. Responses should be received by 18 January 2010 and should be sent to:

DPCR5 Response
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Ofgem
2nd floor
9 Millbank
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SW1P 3GE

020 7901 7026
DPCR5.reply@ofgem.gov.uk

1.4. Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website www.ofgem.gov.uk. Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.5. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing. Respondents are asked to put any confidential material in the appendices to their responses.

1.6. Any questions on this document should, in the first instance, be directed to:

John Wilson
Senior Legal Adviser, Distribution

9 Millbank, London, SW1P 3GE
020 7901 7226

john.wilson@ofgem.gov.uk

CHAPTER: One

There are no specific questions in this chapter.

CHAPTER: Two

Question 1: Are our proposed changes to the standard licence conditions appropriate?

Question 2: Are our proposed changes to the charge restriction conditions appropriate?

Question 3: Have you identified any other or consequential changes not highlighted in this chapter that we should make to the licence conditions to reflect our Final Proposals?

Question 4: Is our proposed approach to the implementation of a common connection charging template appropriate?

Question 5: Are there any definitions in the standard licence conditions or charge restriction conditions that are now redundant or need updating?

Question 6: What further detail, if any, is required in the charge restriction condition (CRC 14) that will introduce the low carbon networks fund in order to implement this new fund as set out in our Final Proposals?

Question 7: What changes are necessary to the licence conditions (in particular standard licence conditions 45 – 49) to give effect to the new consolidated structure for the regulatory instructions and guidance?

Appendix 2 – The Authority’s Powers and Duties

1.1. Ofgem is the Office of Gas and Electricity Markets which supports the Gas and Electricity Markets Authority (“the Authority”), the regulator of the gas and electricity industries in Great Britain. This Appendix summarises the primary powers and duties of the Authority. It is not comprehensive and is not a substitute to reference to the relevant legal instruments (including, but not limited to, those referred to below).

1.2. The Authority's powers and duties are largely provided for in statute, principally the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002 and the Energy Act 2004, as well as arising from directly effective European Community legislation. References to the Gas Act and the Electricity Act in this Appendix are to Part 1 of each of those Acts.⁶

1.3. Duties and functions relating to gas are set out in the Gas Act and those relating to electricity are set out in the Electricity Act. This Appendix must be read accordingly⁷.

1.4. The Authority’s principal objective when carrying out certain of its functions under each of the Gas Act and the Electricity Act is to protect the interests of existing and future consumers, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the shipping, transportation or supply of gas conveyed through pipes, and the generation, transmission, distribution or supply of electricity or the provision or use of electricity interconnectors.

1.5. The Authority must when carrying out those functions have regard to:

- the need to secure that, so far as it is economical to meet them, all reasonable demands in Great Britain for gas conveyed through pipes are met;
- the need to secure that all reasonable demands for electricity are met;
- the need to secure that licence holders are able to finance the activities which are the subject of obligations on them⁸;
- the need to contribute to the achievement of sustainable development; and
- the interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas.⁹

⁶ Entitled “Gas Supply” and “Electricity Supply” respectively.

⁷ However, in exercising a function under the Electricity Act the Authority may have regard to the interests of consumers in relation to gas conveyed through pipes and vice versa in the case of it exercising a function under the Gas Act.

⁸ Under the Gas Act and the Utilities Act, in the case of Gas Act functions, or the Electricity Act, the Utilities Act and certain parts of the Energy Act in the case of Electricity Act functions.

1.6. Subject to the above, the Authority is required to carry out the functions referred to in the manner which it considers is best calculated to:

- promote efficiency and economy on the part of those licensed¹⁰ under the relevant Act and the efficient use of gas conveyed through pipes and electricity conveyed by distribution systems or transmission systems;
- protect the public from dangers arising from the conveyance of gas through pipes or the use of gas conveyed through pipes and from the generation, transmission, distribution or supply of electricity; and
- secure a diverse and viable long-term energy supply.

1.7. In carrying out the functions referred to, the Authority must also have regard, to:

- the effect on the environment of activities connected with the conveyance of gas through pipes or with the generation, transmission, distribution or supply of electricity;
- the principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed and any other principles that appear to it to represent the best regulatory practice; and
- certain statutory guidance on social and environmental matters issued by the Secretary of State.

1.8. The Authority has powers under the Competition Act to investigate suspected anti-competitive activity and take action for breaches of the prohibitions in the legislation in respect of the gas and electricity sectors in Great Britain and is a designated National Competition Authority under the EC Modernisation Regulation¹¹ and therefore part of the European Competition Network. The Authority also has concurrent powers with the Office of Fair Trading in respect of market investigation references to the Competition Commission.

⁹ The Authority may have regard to other descriptions of consumers.

¹⁰ Or persons authorised by exemptions to carry on any activity.

¹¹ Council Regulation (EC) 1/2003

Appendix 3 - Glossary

ABC

B

Business Carbon Footprint (BCF)

Total set of greenhouse gas emissions caused directly and indirectly by the operation of a business.

C

Common Distribution Charging Methodology (CDCM)

The common methodology for HV/LV charging as developed and submitted by the DNOs on 25 August 2009 for approval by the Authority under standard licence condition 50.

D

Department of Energy and Climate Change (DECC)

Distributed Generation (DG)

Any generation which is connected directly into the local distribution network, as opposed to the transmission network, as well as combined heat and power schemes of any scale. The electricity generated by such schemes is typically used in the local system rather than being transported for use across the UK.

Distribution Network Operators (DNOs)

A DNO is a company which operates the electricity distribution network which includes all parts of the network from 132kV down to 230V in England and Wales. In Scotland 132kV is considered to be a part of transmission rather than distribution so their operation is not included in the DNOs' activities.

There are 14 DNOs in the UK which are owned by seven different groups as follows: CE Electric UK, Central Networks, EDF Energy Networks, Electricity North West, Scottish Power, Scottish and Southern Energy and Western Power Distribution.

Distribution Price Control Review 4 (DPCR4)

Distribution price control review 4. This price control runs from 1 April 2005 and is expected to run until 31 March 2010.

Distribution Price Control Review 5 (DPCR5)

Distribution price control review 5. This price control is expected to run from 1 April 2010 until 31 March 2015.

E

[Extra High Voltage \(EHV\)](#)

Includes all voltage levels above 20kV up to but excluding 132kV.

H

[High Voltage \(HV\)](#)

Includes all voltage levels above 1kV up to and including 20kV.

I

[Independent distribution network operators \(IDNOs\)](#)

Any electricity distributor whose licence was granted after 1 October 2001. IDNOs do not have distribution services areas.

[Innovation Funding Incentive \(IFI\)](#)

The IFI is intended to encourage DNOs to invest in appropriate research and development activities that are designed to enhance the technical development of distribution networks (up to and including 132 kV) and to deliver value (i.e. financial, supply quality, environmental, safety) to end consumers.

L

[Legal drafting working group \(LDWG\)](#)

A working group established and chaired by Ofgem which comprises representatives from Ofgem and the DNOs. The purpose of the legal drafting working group is to provide a peer review function to Ofgem. In particular, the group will be responsible for reviewing Ofgem's development of all proposed changes to licence conditions, as well as the SIs and RIGs.

[Low carbon networks fund \(LCN fund\)](#)

Funding to encourage the DNOs to innovate to deliver the networks we will need for a low carbon economy.

[Low Voltage \(LV\)](#)

All voltage levels up to and including 1kV.

R

Regulatory Instructions and Guidance (RIGs)

The RIGs set out definitions and related instructions and guidance for collating and reporting information.

S

Scottish Hydro Electricity Power Distribution (SHEPD)

W

Western Power Distribution (WPD)

Appendix 4 - Feedback Questionnaire

1.1. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

1. Do you have any comments about the overall process, which was adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand, could it have been better written?
4. To what extent did the report's conclusions provide a balanced view?
5. To what extent did the report make reasoned recommendations for improvement?
6. Please add any further comments?

1.2. Please send your comments to:

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Consultation Co-ordinator
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9 Millbank
London
SW1P 3GE
andrew.macfaul@ofgem.gov.uk