



Company Secretary  
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*Promoting choice and value for  
all gas and electricity customers*

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Date: 21 December 2009

Dear Company Secretary,

**Derogation pursuant to paragraph 50.36 of Standard Licence Condition 50 (Development and implementation of a Common Distribution Charging Methodology for the High and Low Voltage Networks) of the Electricity Distribution Licence**

I refer to your letter of 5 October 2009<sup>1</sup> requesting a derogation to be granted, pursuant to paragraph 50.36 of the Electricity Distribution Licence (the "Licence"), in respect of the requirements of paragraph 50.13 relating to the Common Distribution Charging Methodology (the "CDCM")<sup>2</sup>. Paragraph 50.13 requires the holder of a Licence to give effect to the CDCM no later than 1 April 2010. We acknowledge your request for a derogation to be granted to EDF Energy Networks ("EDF") pursuant to paragraph 50.13 to relieve its three licensees, EDF Energy Networks (EPN) plc, EDF Energy Networks (LPN) plc and EDF Energy Networks (SPN) plc, of their obligation to comply with the CDCM in several areas as detailed below.

We note that your letter included a derogation request with respect to the billing of embedded networks. As the industry is currently progressing possible solutions to this issue via a BSC code modification (P246) we defer our decision on this request until such industry processes are complete.

**Areas of non compliance against the CDCM**

The derogation request seeks to relieve EDF from complying with the CDCM in the following areas:

1. Paragraph 39 of the CDCM stipulates that time bands be defined by reference to UK clock time only. EDF requests a definite derogation until 31 March 2011 to continue to use its existing methodology for the billing of half hourly customers whereby billing time bands are set in reference to Greenwich Mean Time (GMT) in accordance with the functionality of its current billing system.
2. Paragraph 133(d) of the CDCM prescribes that capacity charges for half hourly customers be charged on a pence per day basis. EDF requests a definite derogation to continue to use its existing methodology, which is to charge on a £ per month basis, until 30 September 2010.

<sup>1</sup> EDF's letter is available to view on our website at

<http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/EDF%20response%20to%20CDCM.pdf>

<sup>2</sup> We refer to the CDCM as submitted to us on 25 August 2009. See

[http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/Cover\\_for\\_CDCM\\_submission\\_and\\_derogations.pdf](http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/Cover_for_CDCM_submission_and_derogations.pdf)

3. Paragraphs 139 and 141 of the CDCM instruct that the billing system will be required to apply negative unit charges to generation customers. EDF requests a definite derogation not to comply with these paragraphs until 31 March 2011.
4. Paragraph 150 of the CDCM prescribes that capacity in excess of the maximum import capacity will be charged for the duration of the month in which the breach occurs. EDF's current methodology calculates excess capacity charges based on the highest of:
  - the agreed capacity in that month;
  - maximum demand in the billing period; or
  - maximum demand in the previous 11 months.EDF requests a definite derogation until 30 September 2010 not to comply with paragraph 150 of the CDCM and proposes to completely disable charges for excess capacity.
5. Paragraphs 152-159 of the CDCM prescribe a method for the calculation of capacity (kVA) values for both import and export MPANs. EDF requests a definite derogation from these paragraphs until 30 September 2010.
6. Paragraphs 160-169 of the CDCM prescribe a method for the calculation of chargeable reactive power units for import and export. The CDCM method requires the use of reactive export and reactive import data. EDF requests a definite derogation until 30 September 2010 for import, and 31 March 2011 for export. For the duration of the derogation EDF proposes to use its existing methodology.

We note that your letter included a derogation request with respect to the billing of embedded networks (CDCM paragraph 144). As the industry is currently progressing possible solutions to this issue via a BSC code modification (P246) we defer our decision on this request until such industry processes are complete.

### **Information provided by EDF**

We have considered the information provided by EDF in reaching our decision on the request for derogation. We note that EDF advised that:

- The move to billing in clock time involves a large functionality change for their IT and billing systems. The materiality is presumed to be low and will be effective only during British Summer Time, namely from 1 April 2010 to 31 October 2010. Manual work around the issue has been discounted given that it would involve 33000 half hourly customers.
- Non compliance with paragraphs 152-159 of the CDCM in the calculation of capacity values is anticipated to affect a maximum of 100 customers.
- Likewise, non-compliance with paragraphs 160-169 of the CDCM in the calculation of reactive power charges is anticipated to have very small impact.

### **The Authority's decision**

We have considered EDF's derogation request in accordance with our principal objective and general duties in light of the information provided by EDF. We have considered in particular those factors set out in the Guidance Note 'Derogation from codes and standards in electricity generation, supply, distribution and transmission licenses'<sup>3</sup> and have decided not to grant a derogation from paragraphs 139 and 141 in relation to generation charging and to grant definite derogation from paragraphs 39, 133(d), 150, 152-159 and 160-169 of the CDCM. Our decision was taken for the following reasons:

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<sup>3</sup> <http://www.ofgem.gov.uk/Networks/Techn/TechStandds/Derogtns/Documents1/090119DerogationsGuidance.pdf>

- We consider the negative unit rates to generators one of the main benefits of the new common methodology. None of the other DNOs requested a derogation against applying negative unit rates to generators. The issue of negative rates to generators has been raised several years ago and EDF has plenty of time to react to this in a timely manner. For these reasons we decided to reject this derogation request.
- EDF has identified specific areas of non-compliance with the CDCM and is working to modify its billing system to fully comply with the CDCM requirements within a period of 6 months and (12 months for the derogation from paragraph 39 of which only 7 months are effective).
- The potential impact of all areas of the derogation on charges is small.
- Suppliers expressed that they could comfortably accommodate these definite derogations and that they will not result in additional cost for them.
- The areas where derogation was approved do not materially reduce the benefits associated with the CDCM.

For the avoidance of doubt, for the time being the Authority is not granting a derogation from paragraph 144 of the CDCM with respect of IDNO portfolio billing.

For the duration of the derogation EDF will use their existing methodology in each of the areas where derogation was granted. This includes using their current methodology with respect to excess capacity charges and not to disable these charges as proposed by EDF.

### **Duration of the derogation**

Based on EDF's view of the time required to complete the required changes to their IT system the Authority hereby grants a derogation from the requirements of paragraph 50.13 of the License in respect of paragraphs 133(d), 150, 152-159 and 160-169 of the CDCM until 30 September 2010. This derogation will expire on 30 September 2010 unless amended or revoked by the Authority upon reasonable notice. The Authority grants a derogation from the requirement of paragraph 50.13 of the License in respect of paragraph 39 of the CDCM until 26 March 2011<sup>4</sup>. This derogation will expire on 26 March 2011 unless amended or revoked by the Authority upon reasonable notice.

This letter constitutes notice for the purposes of section 49A of the Act in relation to the Direction.

Yours faithfully



**Rachel Fletcher**  
**Partner – Distribution**

**For and on behalf of the Authority**

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<sup>4</sup> The Authority grants the derogation until 26 March 2011 and not 31 March 2011, as requested by EDF, since British Summer Time begins on 27 March 2011, at which time we expect EDF to comply with the CDCM and set time bands in reference to British clock time.