

To the Company Secretary:

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Electricity Act 1989

DIRECTION UNDER STANDARD CONDITION 50 AND STANDARD CONDITION 50A OF THE ELECTRICITY DISTRIBUTION LICENCE GRANTED OR TREATED AS GRANTED UNDER SECTION 6(C) OF THE ELECTRICITY ACT 1989

Whereas –

1. Each of the companies to whom this document is addressed (a "Licence Holder") is the holder of an electricity distribution licence granted or treated as granted under section 6(c) of the Electricity Act 1989 (the "Act").
2. In accordance with Standard Condition 50.29 and Standard Condition 50A.31 of the Electricity Distribution Licence (the "Licence") the Gas and Electricity Markets Authority (the "Authority") may issue a direction concerning the modification arrangements submitted under Standard Condition 50.23 and Standard Condition 50A.25 as the modification arrangements approved by the Authority for the purposes of standard condition 13A (Common Distribution Charging Methodology (CDCM)) and standard condition 13B (Extra High Voltage (EHV) Distribution Charging Methodology (EDCM)).
3. The reasons for making this direction are those stated below.

Reasons for the direction –

4. Under Part F of Standard Condition 50, paragraphs 50.23 to 50.28, and under Part F of Standard Condition 50A, paragraphs 50A.25 to 50A.30 Licence Holders who are Distribution Services Providers (DSPs)¹ are obliged in conjunction with all other DSPs, and in consultation with other Authorised Electricity Operators to develop arrangements for handling modification proposals in relation to the CDCM and EDCM and submit them for approval to the Authority by not later than 1 September 2009 and 1 September 2010 respectively which include the following core features:
 - The first core feature is that the arrangements must provide for the licensee to meet periodically with other DSPs, other Authorised Electricity Operators, and any other persons whose interests are materially affected by the methodologies for the purpose of discussing the further development of the methodologies.
 - The second core feature is that the arrangements must provide for a timely and efficient process by which the licensee can:
 - (a) formally receive modification proposals from any Authorised Electricity Operator or any other person whose interests are materially affected by the methodologies;
 - (b) consult on the merits of those proposals with other DSPs, other Authorised Electricity Operators, and any other persons whose interests are materially affected by the methodologies; and

¹ Distribution Services Providers is a defined term in Standard Condition 1. It includes all electricity distribution Licence Holders other than those who operate independent networks. In the remainder of this document references to Distribution Network Operators (DNOs) may be read as a reference to DSPs interchangeably.

- (c) evaluate those proposals in the light of that consultation.
- The third core feature is that the arrangements must provide for the licensee to have a report on any modification proposal prepared in a timely and efficient manner for submission to the Authority that:
 - (a) sets out the terms proposed for the modification;
 - (b) fairly summarises the representations received during the consultation process;
 - (c) sets out the conclusions reached by the licensee and other Distribution Services Providers about the modification proposal in question, including whether, in their opinion, the modification would better achieve the Relevant Objectives; and
 - (d) sets out a timetable for implementing the modification, if it were to be made, and the date from which the modification (if made) would take effect.
 - The fourth core feature is that the arrangements must provide for the review and future modification (where appropriate) of the modification arrangements.
5. On 15 July 2009, the DNOs formally submitted governance proposals to us in a paper titled 'Governance and change control arrangements for the DNO distribution charging methodologies'. The key recommendation of the paper was that the CDCM and EDCM should be incorporated into the Distribution and Connection Use of System Agreement (DCUSA) and therefore be subjected to the governance and change control mechanisms of the DCUSA.
 6. On 31 July 2009, in accordance with section 11A(4)(b) of the Act, the Authority published a statutory consultation notice ("the Notice") on a Collective Licence Modification (CLM) obliging licence holders to formally achieve incorporation of the CDCM and the EDCM within the DCUSA with effect from 1 April 2010 and 1 April 2011 respectively. In parallel to the CLM we published a decision setting out the reasons why we considered that the formal incorporation of the CDCM and EDCM within the DCUSA would be compatible with the licence requirements set out in Part F of Standard Condition 50 and Part F of Standard Condition 50A. Prior to the close of the consultation period in respect of the Notice, the Authority did not receive any responses which constituted a formal objection. The licence changes took effect from 1 October 2009.
 7. On 20 November 2009 DCUSA proposal DCP046A and DCP046B: Common Distribution Charging Methodologies Governance was submitted for decision to the Authority. Taking into account the responses to the DCP046 consultation, and the recommendations of the DCUSA Parties, in parallel with this direction the Authority has concluded that implementation of proposed variation DCP046B will better facilitate the achievement of the Applicable DCUSA Objectives and that directing that proposed variation DCP046B be made is consistent with the Authority's principal objective and statutory duties². The Authority has therefore directed that proposed variation DCP046B be made with effect from 1 January 2010.

² The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989, Gas Act 1986, Utilities Act 2000, Competition Act 1998, Enterprise Act 2002 and the Energy Act 2004 as well as arising from directly effective E.C legislation.

8. The effect of the Authority's decision to approve implementation of DCP046B will be to provide any DCUSA party and, with the written consent of the Authority, any person materially affected by the CDCM or the EDCM, with the ability to formally raise and have modification proposals to either methodology consulted on and referred by way of formal modification report to the Authority for decision. The proposed variation does not of itself seek to achieve the formal incorporation of the methodologies within the DCUSA. Following the Authority's decision to approve implementation of the CDCM from 1 April 2010 it will be necessary for a further proposed variation to be raised in the early part of 2010 to achieve formal incorporation of the CDCM by 1 April 2010. A further proposal will require to be raised later in 2010 to achieve formal incorporation of the EDCM should the Authority decide to approve implementation of that methodology.
9. In our view the creation under DCP046B of a specific definition of Charging Methodologies within the DCUSA and the specific reference of a set of Charging Methodology Objectives within the DCUSA will customise the DCUSA such that it is capable of formally receiving modification proposals to the CDCM and the EDCM from the time of their incorporation, and will ensure that any such modification proposals are subject to the existing DCUSA change control procedure. In so doing we consider that implementation of DCP046B discharges the licence obligations imposed on DNOs concerning receiving, consulting and reporting on proposals from non-DNO parties described under paragraphs 50.26 to 50.28 of Standard Condition 50 and paragraphs 50A.28 to 50A.30 of Standard Condition 50A. These obligations are also referred to as the second, third and fourth core features which the modification arrangements must include provision for.
10. On 9 December 2009 the DNOs wrote to the Authority advising that, following consultation with interested parties, they had revised the terms of reference of the Distribution Charging Methodology Forum (DCMF)³. Among other things the revised terms of reference state that the DCMF will meet on the first Thursday of every other month; that the scope of the DCMF will focus on (but not exclusively) the Development of Use of System Charging Methodologies, including initiation of the annual review of the CDCM and the EDCM; and that a standard agenda template should be adopted for the meetings of the DCMF within which current or new change proposals to the CDCM and the EDCM from both DNOs and other interested parties will be standing agenda items.
11. The amended DCMF Terms of Reference will primarily ensure that the DCMF provides the forum at which potential changes to the CDCM and EDCM are discussed with interested parties before being raised, if appropriate, as formal change proposals to the DCUSA. In our view the provision made by the amended DCMF Terms of Reference fulfils the licence obligations contained in paragraph 50.24 of Standard Condition 50 and 50A.27 of Standard Condition 50A concerning meeting periodically with other DSPs, other Authorised Electricity Operators, and any other persons whose interests are affected by the CDCM and the EDCM for the purpose of discussing the further development of the methodologies. However in issuing this direction we note that the ability of the DCMF to discharge this role effectively has not been tested before. Following implementation of the CDCM and the EDCM we intend to monitor the success of the DCMF in providing an adequate discussion forum for potential changes to the CDCM and the EDCM. In particular we urge the DNOs to monitor the accessibility of the forum to non-DNO parties, and to take steps to make any changes, should they consider that the arrangements could be improved.

³ The DCMF terms of reference are available at the following location:
<http://2009.energynetworks.org/distribution-charging-methodol/>

Now therefore

The Authority hereby issues a direction under Standard Condition 50.29 and Standard Condition 50A.31 approving the modification submitted under Standard Condition 50.23 and Standard Condition 50A.25 for the purposes of standard condition 13A (Common Distribution Charging Methodology (CDCM)) and standard condition 13B (Extra High Voltage (EHV) Distribution Charging Methodology (EDCM)) with effect from 1 January 2010.

A handwritten signature in black ink, appearing to read 'Rachel Fletcher', is written over a light grey rectangular background.

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Rachel Fletcher, Partner, Distribution
Duly Authorised on behalf of the Authority 17 December 2009