



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 7 October 2009¹ 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")². 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 Scottish Power Energy Networks ("SP") pursuant to paragraph 50.13 to relieve its two licensees, SP Distribution Ltd and SP Manweb plc, of their obligation to comply with paragraphs 150, 152-159 and 160-169 of the CDCM.

Areas of non compliance

The derogation request seeks to relieve SP from complying with the CDCM in three areas:

1. 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. SP requests a definite derogation until April 2011 to continue to use its existing methodology whereby excess capacity is charged for the financial year, backdated to the previous April.
2. Paragraphs 152-159 of the CDCM prescribe a method for the calculation of capacity (kVA) values. SP requests a definite derogation until April 2011 to continue to use its existing methodology.
3. Paragraphs 160-169 of the CDCM prescribe a method for the calculation of chargeable reactive power units. SP requests a definite derogation until April 2011 to continue to use its existing methodology.

¹ SP's letter can be viewed on our website at:

<http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/SP%20Energy%20Networks.%20Derogation%20request%20for%20CDCM.pdf>

² 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%20for%20CDCM%20submission%20and%20derogations.pdf)

Information provided by SP

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

- SP is working with IBM to establish detailed specifications for system changes. After implementation, these changes will require adequate testing and user acceptance to ensure accuracy of billing.
- The requirement to make the changes for multi-site billing makes the solution significantly more complex.
- Non compliance with paragraphs 152-159 will impact about 2800 half hourly customers (0.08% of total customers) who exceed their maximum allowed capacity over a 12 months period over both distribution areas. The impact of SP using a different formula for capacity charges will be to slightly undercharge these customers.
- Non compliance with paragraphs 160-169 will impact about 5900 half hourly customers (0.16% of total customers) who pay reactive charges over both distribution areas. The impact of SP using a different formula for reactive power charges will be to slightly undercharge these customers.
- Non compliance with paragraph 150 will be negligible, for the most part, as most customers that exceed capacity do so continuously.
- In informal correspondence with SP we received evidence to suggest that manual work around the non compliance would involve considerable resources and too high a cost to justify such solution given the modest impact of the derogation.
- The two areas of non-compliance do not impact on security of supply, competition, sustainable development or health & safety.

The Authority's decision

We have considered SP's derogation request in accordance with our principal objective and general duties in light of the information provided by SP. 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'³ and have decided to grant definite derogation from the paragraphs 150, 152-159 and 160-169 of the CDCM for the following reasons:

- SP has identified specific areas of non-compliance with the CDCM and is working to achieve full compliance with the CDCM.
- SP demonstrated that the impact of non-compliance is negligible and/or that the cost of work around the non-compliance is too high to be a sensible solution in light of the modest impact of the derogations.
- Suppliers expressed that they could comfortably accommodate these definite derogations and that they will not result in additional cost for them.
- The areas of non-compliance do not materially reduce the benefits associated with the CDCM.

For the duration of the derogation SP will use their existing methodology in each of the areas where a derogation was granted.

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

Duration of the derogation

Based on the evidence submitted to us the Authority hereby grants a derogation from the requirements of paragraph 50.13 until 30 September 2010. This derogation will expire on 30 September 2010 unless amended or revoked by the Authority upon reasonable notice.

We note that the duration of this derogation is shorter than the 12 months requested by SP. Our decision to reduce the duration of the derogation from 12 to 6 months was influenced by discussions with suppliers, licensees, and the duration of derogation requests on similar issues submitted by other licensees.

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

Yours faithfully

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

Rachel Fletcher
Partner – Distribution

For and on behalf of the Authority