

Modification proposal:	Revision to CE NEDL and YEDL's¹ UoS Charging Methodology to reflect the move to the Common Distribution Charging Methodology (CDCM) for LV and HV demand and generation customers, removal of losses methodology and general housekeeping changes including changes to licence condition numbering (0015N/2009 & 0015Y/2009)		
Decision:	The Authority ² directs that this proposal is not vetoed ³		
Target audience:	DNOs, IDNOs, Suppliers, Generators and other interested parties		
Date of publication:	23 February 2010	Implementation Date:	1 April 2010

Background to the modification proposal

CE have licence obligations⁴ to have in place at all times three charging statements in relation to Use of System (UoS) and Connection: the Statement of UoS Charging Methodology, the Statement of UoS Charges and Statement of Connection Charging Methodology and Charges. The statement of UoS Charging Methodology outlines the method by which distribution UoS charges are calculated. CE has a requirement to keep the methodology under review and bring forward proposals to modify the methodology that they consider better achieve the relevant objectives⁵.

On 20 November 2009, the Authority conditionally approved the Common Distribution Charging Methodology (CDCM)⁶. The CDCM introduces a new methodology for calculating UoS charges for customers connected to Distribution Network Operators' (DNOs) low and high voltage (LV/HV) networks. The CDCM will take effect from 1 April 2010. To facilitate the implementation of the CDCM, DNOs are obliged by their licence to revoke their current LV/HV methodologies by 31 March 2010.

The Authority decided in its Distribution Price Control Review (DPCR5) Final Proposals⁷, published on 7 December 2009, that the calculation of individual revenue pots for calculating demand and generation Use of System charges should be replaced by the

¹ CE Electric UK own two electricity distribution licensees – Northern Electricity Distribution Ltd (NEDL) and Yorkshire Electricity Distribution Ltd (YEDL). This letter applies to both licensees.

² The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

³ This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

⁴ Standard licence conditions (SLC) 13 -14.

⁵ The relevant objectives for the UoS charging methodology, as contained in paragraph 3 of SLC 13 of SSE's licences are:

- (a) that compliance with the methodology facilitates the discharge by the licensee of the obligations imposed on it under the Act and by this licence;
- (b) that compliance with the methodology facilitates competition in the generation and supply of electricity, and does not restrict, distort or prevent competition in the transmission or distribution of electricity;
- (c) that compliance with the methodology results in changes which reflect, as far as is reasonably practicable (taking account of implementation costs), the costs incurred by the licensee in its Distribution Business; and
- (d) that, so far as is consistent with sub-paragraphs (a), (b) and (c), the UoS charging methodology, as far as is reasonably practicable, properly takes account of developments in the licensee's Distribution Business.

⁶ The Authority's decision document can be found at:

[http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/CDCM%20decision%20doc%20201109%20\(2\).pdf](http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/CDCM%20decision%20doc%20201109%20(2).pdf)

⁷ A copy of our Final Proposal is on our website. Please see

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=346&refer=Networks/ElecDist/PriceCtrls/DPCR5>

calculation of a single revenue pot to be recovered from all customers. The Authority also decided to lift a blanket exemption, currently enjoyed by all DNOs, from charging distributed generators (DG) for UoS. The exemption will expire from 31 March 2010. All DNOs have now accepted our Final Proposals in principle⁸.

As a consequence of the impending implementation of the CDCM and DPCR5 Final Proposals, we asked that each DNO review their extra-high-voltage (EHV) methodologies. DNOs are now bringing forward modifications to their existing EHV methodologies to ensure they better achieve the relevant objectives from 1 April 2010. We also asked DNOs that any necessary modifications, where possible, have a minimal impact on charges ahead of the implementation of the common EHV Distribution Charging Methodology (EDCM)⁹ from 1 April 2011.

Summary of CE's proposals

On 26 January 2010, CE submitted a modification report to the Authority setting out proposals to modify their UoS charging methodologies, which are intended to reflect changes in the industry – i.e. the impending implementation of the CDCM and DPCR5 Final Proposals from 1 April 2010.

In summary, CE propose to make the following changes:

- Revised section 3 to make references to the CDCM clear as the methodology for calculation of HV/LV charges and how allowed revenue is determined for the purpose of the CDCM;
- Revised section 5 to refer only to the calculation of EHV generation charges because both HV and LV generation charges will now be covered under the CDCM;
- Removed section 6 'Application of use of system charges' because it will be covered in the CDCM;
- General house-keeping including updating diagrams to reflect the changes in industry agreements (clause 2.4);
- Update references to licence conditions; and
- Removal of appendix 1 'Losses Methodology' because this will now be published on CE's website as a standalone document.

Reasons for the Authority's decision

The Authority has decided to **not veto** CE's proposal. In coming to our decision the Authority has considered the proposed modification against the relevant objectives and the Authority's principal objective and wider statutory duties¹⁰.

In general, we consider that CE's proposals are necessary to ensure that their EHV methodology continues to be clear and operable following the implementation of the CDCM and DPCR5 Final Proposals. Our decision is based on CE's proposal better achieving relevant objective (d). Detailed reasons for the Authority's decisions are set out below.

⁸ A press release explaining that DNOs had accepted our Final Proposals in principle was published on 8 January 2010. Please see http://www.ofgem.gov.uk/Media/PressRel/Documents1/Dp5%20acceptance_1_2010.pdf

⁹ DNOs' existing methodologies for calculating UoS charges for use of the higher voltages of their networks – i.e. the EHV are likely to remain in place until the end of 31 March 2011. From 1 April 2011 common EDCMs will replace existing EHV charging methodologies. For further information see our July 2009 decision letter at <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=487&refer=Networks/ElecDist/Policy/DistChrgs>

¹⁰ The Authority's statutory duties 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.

Relevant objective (d) – that so far as is consistent with sub paragraphs (a), (b) and (c), the methodology, as far as is reasonably practicable, properly takes account of developments in the licensee's distribution business

Under SLC 13A and 50, on 1 April 2010 CE is obliged, along with other electricity distribution licensees, to implement and comply with the CDCM and to have revoked their existing HV/LV charging methodologies from their SLC 13 UoS Charging Methodology¹¹. On the same day, DPCR5 Final Proposals will be implemented. In light of these changes in its distribution business, CE's proposal will amend their SLC 13 UoS Charging Methodology to ensure that it remains a complete and documented explanation, presented in a coherent and consistent manner¹², whilst making no substantive changes to the calculation of EHV charges. In particular it will make clear that the CE's Charging Methodology pursuant to SLC 13 specifically explains the calculation of EHV charges.

Generally speaking, CE propose to make incidental changes to their SLC 13 UoS methodology to ensure that following the revocation of their HV/LV methodologies it remains complete and documented explanation, presented in a coherent and consistent manner. These changes include updating references to the licence and including new references to the CDCM. We consider that the proposed summary of the CDCM and the other incidental changes were made to clarify that the SLC 13 UoS methodology only applies to EHV charges are appropriate to facilitate the introduction of the CDCM.

The most substantive change that CE propose is to make it clear how allowed revenue is calculated and used in conjunction with the CDCM. That is, the total amount of allowed revenue to be recovered from HV/LV customers through the CDCM is calculated by subtracting EHV demand and EHV generation revenues, which are calculated in accordance with their proposed methodology statement, from the total allowed revenue that is determined in accordance with their licence. We consider that improving the clarity of the revenue reconciliation process is necessary following the implementation of DPCR5 Final Proposals, which will make changes to each DNO's licence in relation calculating allowed revenue. CE's proposal will ensure that total allowed revenue is clearly apportioned between the EHV and HV/LV methodologies.

Finally, we note that CE propose to remove their Losses Methodology and publish it in a standalone methodology statement. This is to reflect the introduction of Balancing and Settlement Code modification P216 'Audit of LLF¹³ Production'¹⁴. We consider that the publication of the Losses Methodology in a standalone document is appropriate following the implementation of P216 and that the proposed words in the SLC 13 methodology will ensure that users are aware that the Losses Methodology is published separately.

In light of the impending implementation of the CDCM and DPCR5 Final Proposals, we consider that all changes proposed by CE are necessary and will ensure users of their methodology continue to be able to interpret it clearly. Therefore, we consider that their proposals will take account of changes in their distribution business and better achieve Relevant Objective (d) and its implementation is consistent with our principal objective and statutory duties.

Further comments

CE's methodology with respect to generators connected prior to April 2005 sets out that:

¹¹ Which, until 1 April 2010, covers the calculation of charges for HV/LV and EHV customers.

¹² See SLC 13.14.

¹³ Line loss factor.

¹⁴ Which was approved by the Authority on 24 April 2008 and implemented on 20 April 2009.

'In general, these sites will have paid a higher connection charge to cover the deeper connection assets and hence no separate UoS charge will be made in respect of electricity that the generator exports to the system until April 2010, unless a generator chooses to opt in. The specific terms and charges of such a decision will be dealt with on an individual basis as they arise.

The situation post-2010 is still under review and no decision has yet been taken.'

Whilst on balance we consider CE's modification qualifies for a decision not to veto their proposal, it is worthwhile clarifying that charges to generators that connected pre-2005 may apply post 1 April 2010. CE are working with the rest of the industry to come up with an approach to this.

We expect modification proposals coming forward from this point on (from any DNO) to clearly reflect this position. In the interim, we additionally expect CE and the other DNOs to do all they can to make it clear to distributed generators that they may be liable to pay UoS charges if, for example, they did not pay deep connection charges or if the payments made can no longer justify an exemption from UoS charges.

If you have any questions relating to the issues discussed in this letter please contact Nicholas Rubin, either at nicholas.rubin@ofgem.gov.uk or on 020 7901 7176.

Rachel Fletcher

Partner, Distribution

Signed on behalf of the Authority and authorised for that purpose