



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.

Promoting choice and value for all gas and electricity customers

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Dear Colleague,

Electricity Distribution Price Control Review: statutory consultation on the licence modifications (Ref: 24/10)

Ofgem has today published a statutory consultation on the proposed modifications to distribution licences, pursuant to section 11 and section 11A of the Electricity Act 1989, which are necessary to implement the electricity distribution price control proposals that we published on 7 December 2009¹.

The price control framework is embodied in several charge restriction and standard conditions of the distribution licences. These charge restriction conditions prescribe revenue allowances and parameters and how the revenue allowances may be adjusted for a range of factors, including a company's performance under various incentive mechanisms. These licence conditions also set out obligations on distribution network operators (DNOs)² from 1 April 2010, including to set distribution charges consistent with their revenue allowance. The standard conditions place obligations on licensees to report on various aspects of the price control (including their carbon footprint and connections standards of performance) and to meet connections standards of performance in respect of connections in 90 per cent of all cases.

This letter provides an explanation of the notices on which we are consulting as part of the statutory licence consultation. A brief explanation of the notices is provided below, together with further detail in the Annex to this letter. This letter also seeks to clarify some outstanding issues that were highlighted in the Second Licence Drafting Consultation document, as well as changes we have had to make to the licence conditions since that time.

The statutory consultation notices

The statutory consultation consists of two separate notices as set out below:

1. Section 11 notice for collective amendments to the charge restriction conditions which apply to all DNOs, with the exception of one amendment (CRC 18A),

¹ Electricity Distribution Price Control Review - Final Proposals, 7 December 2009 (Ref. 144/09).

² DNOs are the ex-public electricity suppliers who have section B of their distribution licences switched on.

concerning Shetland, which is specific to Scottish Hydro Electric Power Distribution plc (SHEPD); and

2. Section 11A notice for collective amendments to the standard licence conditions which apply to all DNOs and, in certain cases, to all independent distribution network operators (IDNOs) also.

Clarification of outstanding issues

Single revenue pot

As a result of the introduction of a single revenue pot from 1 April 2010 and the removal of the restriction on the portion of allowed revenues DNOs can recover from demand and generation customers, there is no longer any need for separate conditions concerning demand use of system charges on the one hand and generation use of system charges on the other. Instead, there is now one condition (CRC 3) which deals with the overall level of use of system charges which a DNO can recover from its customers. Consequently, the term 'Combined Allowed Distribution Network Revenue' has been introduced to reflect the single revenue stream going forward. The condition that previously dealt with generation use of system charges has now been removed, as a result of which we have now re-numbered all subsequent special conditions.

Base demand revenue amount

The base demand revenue allowances in the price control proposals that were published in the Final Proposals document on 7 December 2009 have been inflated from 2007-08 prices to 2010-11 prices to arrive at the 'PU' values which are contained in the table at Appendix 1 to CRC 3.

In response to representations from several DNOs we have revised an element of the profiling treatment of PU values. In summary we have excluded revenue adjustments for historic ESQCR and TMA³ factors from profiling to ensure consistency with the terms of the Authority's earlier decisions on these matters. The revised treatment means that allowances for most DNOs are slightly higher in the earlier years of the price control period and correspondingly lower in the latter years when compared to those in the price control proposals that were published on 7 December 2009. However, the revised profiling treatment has not changed the total net present value of the allowances.

Specific adjustments were made to the PU values for Central Networks West plc and Central Networks East plc (before the re-profiling referred to in the preceding paragraph) to reflect a re-assessment of the group pension deficit regulatory fractions for those two DNOs which was highlighted ahead of the company accepting our 7 December proposals in principle. This adjustment increased their PU values by the following amounts:

£m	2010-11	2011-12	2012-13	2013-14	2014-15
CN West	1.9	4.0	6.3	8.8	11.4
CN East	0.0	0.0	0.0	0.1	0.1

High value projects

We identified a contradiction in final proposals on the treatment of High Value Projects for EDF Energy Networks (EPN) plc and EDF Energy Networks (LPN) plc. The High Value Project reopener is assessed on net expenditure but the reopener thresholds set out in Table 3.9 of the Cost Assessment document included gross values for demand connection projects for

³ Electricity Safety Quality and Continuity Regulations 2002 (ESQCR) and the Traffic Management Act 2004 (TMA).

these two DNOs. As the net value of each of these connection projects is less than £15 million these projects have now been removed from the High Value Project mechanism.

Common connection charging template

In final proposals we noted that, in order to facilitate the introduction of the Quotation Accuracy Scheme, the DNOs would need to amend their charging schedules to provide sufficient detail for a customer to be able to challenge its quotation. In the Second Licence Drafting Consultation, we identified that this would be best achieved through the development of a common connection charging template (CCCT) and proposed to amend SLC 12 and 14 to require DNOs to develop a CCCT. We have amended SLC 12.4, 14.2 and 14.5 accordingly.

Regulatory Instructions and Guidance (RIGs)

Ofgem and the DNOs are making good progress towards developing a set of RIGs that will allow us to collect the data we require to monitor compliance and assess performance of the DNOs throughout the DPCR5 period. We intend to have the RIGs in place by 12 May 2010 and to consult on the draft RIGs by 26 March. This gives us the time we need to incorporate the reporting obligations associated with final proposals and to rationalise the RIGs.

Given that DNOs will not have sight of the final RIGs at the start of the next price control period we intend to publish an open letter shortly setting out a slightly delayed timescale for completing the first year's regulatory return. We will also set our requirements for a reduced number of years of forecast and historic data for the first year and our plans for publishing the electricity distribution annual report.

Distributed generation connection standards

Since Final Proposals we have come to the view that we are not able to include distributed generation (DG) connections standards into the proposed Electricity (Connection Standards of Performance) Regulations 2010. We have addressed this by inserting provisions into SLC 15A that allows the Authority to issue a direction that sets DG connections standards that reflect the standards for demand connections set out in the proposed Regulations. Once we have issued the direction, SLC 15A requires licensees to take all reasonable steps to comply with DG connection standards in every case and 90 per cent of all cases falling with any group of standards specified in the RIGs.

Any representations or objections to the proposed modifications must be made in writing by 23 March 2010. They should be sent to Mario Perrone at the Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to mario.perrone@ofgem.gov.uk. I would be grateful if licensees could, in their response to the consultation, indicate whether they consent to the proposals or not.

Yours sincerely



Rachel Fletcher
Partner, Distribution

Further detail on the notices subject to the statutory consultation

The Appendices that accompany this letter set out the notices and modifications of the distribution licence pursuant to section 11 and section 11A of the Electricity Act 1989.

Appendix 1 contains the section 11 notice for England, Wales and Scotland followed by an Annex with all of the new charge restriction conditions. These establish the price controls for each DNO. They generally take the same form for each DNO, with licence specific values being contained in annexes to particular conditions where relevant. In addition, it should be noted that CRC 18A (Arrangements for the recovery of costs for an integrated plan to manage supply and demand on Shetland) is relevant only to Scottish Hydro Electric Power Distribution plc.

Appendix 2 contains the section 11A notice for England, Wales and Scotland. That notice deals with standard licence conditions, which can be modified by a process known as collective licence modification. There are six annexes to the section 11A notice:

- Annex 1 sets out three existing standard conditions that are being modified that apply to all distribution licensees (including IDNOs) in their new form;
- Annex 2 sets out new text for seven existing standard conditions that are being modified applying to DNOs only;
- Annex 3 sets out two new conditions being introduced that apply to both DNOs and IDNOs;
- Annex 4 contains the five new standard conditions being introduced that apply to DNOs only;
- Annex 5 has minor consequential changes to existing standard licence conditions;
- Annex 6 includes a pro forma that licensees can use to register objections to these modifications.