

Proposed variation:	Implementation of Common Distribution Charging Methodology (DCP059)		
Decision:	The Authority ¹ directs that the proposed variation be made		
Target audience:	Parties to the DCUSA and other interested parties		
Date of publication:	31 March 2010	Implementation Date:	1 April 2010

Background to the proposed variation

Distribution Network Operators (DNOs) are required by Standard Licence Condition (SLC) 22A to incorporate the Common Distribution Charging Methodology (CDCM) into the Distribution Connection and Use of System Agreement (DCUSA) by 1 April 2010. The CDCM means the one in force from 1 April 2010 under SLC13A. The full reasons for this requirement were set out in our decision document of 31 July 2009².

On 20 November 2009, the Authority approved the CDCM which was jointly submitted by DNOs subject to five separate conditions³. DNOs submitted a revised CDCM on 11 December 2009 that, as we decided on 21 December 2009, met four of these conditions⁴. The remaining condition in relation to generation charging in generation dominated areas needs to be met by 1 September 2010.

In December 2009, the Authority approved the framework for the new arrangements for handling modification proposals to the CDCM, for implementation on 1 January 2010^{5,6}. This decision provides any DCUSA party and, with the written consent of the Authority, any person materially affected by the CDCM, with the ability to raise and have modification proposals either consulted on or referred to the Authority for decision. In line with this decision, DNOs were expected to raise a further variation in early 2010 to achieve formal incorporation of the CDCM by 1 April 2010. EDF Energy Networks (EPN) plc raised this proposal following discussions with the industry.

The proposed variation

To implement the CDCM on 1 April 2010, the proposed variation seeks to incorporate the CDCM into the DCUSA.

The proposed variation inserts a new Schedule 16 in the DCUSA setting out the CDCM, including the methods, principles and assumptions underpinning the calculation of Use of System Charges by each DNO. This proposed Schedule is based on the revised CDCM that we approved in December 2009, to the extent that no material change to the scope or intent of the approved version had been made. The variation is proposed to take effect from 1 April 2010.

The proposer explained that the implementation of DCP059 would "better facilitate the DCUSA objective (c), of efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences".

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² This document can be found on Ofgem's website at:

<http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/July%20decision%20EHV%20charging%20and%20governance.pdf>.

³ This document can be found on Ofgem's website 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)

⁴ This document can be found on Ofgem's website at:

<http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/Decision%20on%20conditional%20Approvals%20Dec%202009.pdf>

⁵ This document can be found on Ofgem's website at:

<http://www.ofgem.gov.uk/LICENSING/ELECCODES/DCUSA/CHANGES/Documents1/DCP046D.pdf>.

⁶ Our direction on governance arrangements is published on our website at:

[http://www.ofgem.gov.uk/Licensing/Work/Notices/Decisions/Documents1/Governance%20Direction%20171209%20Final%20version%20\(2\).pdf](http://www.ofgem.gov.uk/Licensing/Work/Notices/Decisions/Documents1/Governance%20Direction%20171209%20Final%20version%20(2).pdf)

DCUSA Parties' Recommendation

In the final Change Declaration, dated 8 March 2010⁷, the DCUSA Parties recommended to the Authority that both the proposed insertion of Schedule 16 and the proposed implementation date of 1 April 2010 be accepted. In particular, 19 of the 20 DCUSA parties who voted were in favour of the recommendation.

The Authority's decision

The Authority has considered the issues raised by DCP059, taking into account the responses to the Secretariat's⁸ consultation, which are attached to the Change Declaration⁹, and the recommendations of the DCUSA Parties. The Authority has concluded that:

- implementation of proposed variation DCP059 will better facilitate the achievement of the Applicable DCUSA Objectives¹⁰; and
- directing the proposed variation DCP059 be made is consistent with the Authority's principal objective, statutory duties¹¹ as well as SLCs 22A and 50.

Reasons for the Authority's decision

SLC22A obliges licence holders (DNO Parties and IDNO Parties) to ensure that the CDCM is incorporated within the DCUSA from 1 April 2010. The proposed variation incorporates the CDCM into the DCUSA to enable the governance and change control mechanisms of the DCUSA to take effect from 1 April 2010, the implementation date of the CDCM. The proposed variation follows on from the variation DCP046¹² which established the framework for incorporating the CDCM into the DCUSA.

The proposed variation inserts the CDCM into the DCUSA and is therefore an essential step for discharging the obligations imposed upon the DNOs and IDNOs under SLC22A.

We set out our views on the extent to which the proposed variation meets each of the relevant DCUSA objectives below.

(a) The development, maintenance and operation by the licensee of an efficient, coordinated, and economical Distribution System.

This proposal incorporates the CDCM within the modification framework established under DCP046. This incorporation is intended to have the effect of contributing to the efficient development of the network. Subjecting the CDCM to the governance and change control mechanisms of the DCUSA will ensure that the CDCM is responsive to the needs of network users and that the industry can continue to pursue cost reflective charges centrally through the DCUSA.

⁷ Details of our decision on DCUSA change proposal 046 (DCP046) can be found on our website at: <http://www.ofgem.gov.uk/Licensing/ElecCodes/DCUSA/Changes/Documents1/DCP046D.pdf>.

⁸ The role, functions, and responsibilities of the Secretariat are set out in Section 1B of the DCUSA.

⁹ DCUSA change proposals, change reports and representations can be viewed on the DCUSA website at <http://dcusa.co.uk/Public/Default.aspx>.

¹⁰ The Applicable DCUSA Objectives are these:

- (a) the development, maintenance and operation by the licensee of an efficient, co-ordinated, and economical Distribution System;
- (b) the facilitation of effective competition in the generation and supply of electricity and (so far as is consistent with that) the promotion of such competition in the sale, distribution, and purchase of electricity;
- (c) the efficient discharge by the licensee of the obligations imposed upon it by this licence; and
- (d) the promotion of efficiency in the implementation and administration of the DCUSA arrangements.

¹¹ 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.

¹² See footnote 5.

(b) The facilitation of effective competition in the generation and supply of electricity and (so far as is consistent with that) the promotion of such competition in the sale, distribution, and purchase of electricity.

The proposed variation represents a milestone for widening access to distribution methodologies. For example, having the CDCM published centrally on DCUSA's website helps to ensure that parties other than the network operators, and with the consent of the Authority, parties outside the DCUSA, can raise change proposals, and that such parties are adequately consulted on change proposals. This increased level of accessibility and transparency should help suppliers and parties such as IDNOs to better manage the risk in their business associated with changes to use of system charges.

One DCUSA Party rejected the proposed variation on the basis that allowing de-linking of non-half hourly unit rate charges for use of system from the Standard Settlement Configuration / Time Pattern Regime combination is not conducive to competition (as stated in paragraph 130 of the proposed Schedule 16). We consider that the proposed variation is about subjecting the CDCM to an open governance framework established under DCP046, as required by SLC22A. This DCUSA Party's concern is apparently an issue about the CDCM itself and can be considered through the open governance arrangements. We therefore do not consider their concern a valid reason for not approving the proposed variation.

(c) The efficient discharge by the licensee of the obligations imposed upon it by this licence.

By inserting the CDCM within the DCUSA as Schedule 16 for implementation on 1 April 2010, the DNOs and IDNOs are discharging their obligation under SLC22A to ensure that the CDCM is incorporated within the DCUSA from 1 April 2010.

(d) The promotion of efficiency in the implementation and administration of the DCUSA arrangements.

This proposal inserts the CDCM into the DCUSA. A few minor edits have been made to the CDCM to ensure that definitions are in line with the DCUSA. These promote efficiency in the implementation and administration of the DCUSA, as without these minor amendments Schedule 16 could have been confusing. Outside these minor edits DCP059 does not affect the efficiency of DCUSA arrangements.

Next steps

The CDCM will apply from 1 April 2010. The areas we have flagged in our November 2009 decision that require further development should now be progressed through the open governance arrangements.

The proposed variation means that the DCUSA Parties will formally take custodianship of the CDCM from 1 April 2010. Charging modifications from this date will be assessed against the Applicable Charging Methodology Objectives set out under SLC22A as incorporated into the DCUSA under DCP046.

As set out in our direction on governance arrangements in December 2009, it is important for the industry to monitor the new arrangements, including ensuring that the Distribution Charging Methodologies Forum achieves its role in discussing and helping to ensure efficient handling of potential changes to the CDCM as well as in helping all parties to understand the CDCM.

Decision notice

In accordance with SLC22 of the Distribution Licence, the Authority hereby directs that the proposed variation set out in DCP059 "Implementation of Common Distribution Charging Methodology" be made.

Rachel Fletcher
Partner, Distribution

Signed on behalf of the Authority and authorised for that purpose.