

Modification proposal:	EDF Energy Networks (EDF)¹ – Changes to the UoS Charging Methodology; for housekeeping purposes following approval of the CDCM, and to clarify treatment of pre-2005 generators further to DPCR5 final proposals (EDF UoS 31)		
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:	31 March 2010	Implementation Date:	1 April 2010

Background to the modification proposal

EDF has 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. EDF 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 licences 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 calculation of a single revenue pot to be recovered from all customers. The Authority also decided to lift a blanket exemption that currently applies to all DNOs from charging

¹ EDF Energy Networks own three electricity distribution licensees – EDF Energy Networks (EPN) Plc, EDF Energy Networks (LPN) Plc and EDF Energy Networks (SPN) Plc. This letter applies to all three 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 EDF'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>

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 EDF's proposals

On 31 March 2010, EDF 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 (as required by Standard Licence Condition (SLC) 50) and DPCR5 Final Proposals from 1 April 2010.

In summary, EDF proposes to make the following changes to its methodology:

- In accordance with SLC 50, remove the current sections on general tariffs and LDNO¹⁰ charges and include a new section for Designated Properties in relation to HV/LV charging under the CDCM. This new section briefly describes the CDCM and provides details of where the CDCM can be obtained;
- In recognition of the cessation of the exemption from charging pre-2005 DG, EDF has made clear in its methodology that it will continue not to charge pre-2005 DG for UoS and it intends to develop and implement appropriate arrangements in collaboration with the rest of the industry;
- EDF rewords the remaining elements of the UoS charging methodology in respect of Designated EHV Properties, to ensure that they remain clear and effective following the removal from the methodology of HV/LV charges under the CDCM;
- EDF removes a 'time-limited' charge cap condition that previously applied to generators. The charge cap was introduced as part of the application of distributed generation use of system charges with the 2005 – 2010 price control to smooth any charge volatility. This charge cap was time limited in EDF's methodology until 2010 and due to this time limit the condition is no longer applicable. The removal of this charge cap does not drive any change to current charges because the charge volatility that was predicted when it was first introduced never materialised; and
- DPCR5 Final Proposals will require DNOs to calculate a single pot of allowed revenue. EDF therefore proposes to add details setting out how allowed revenues for calculating HV/LV and EHV demand and generation charges are determined.

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 Licenced Distribution Network Operators.

Reasons for the Authority's decision

The Authority has decided to **not veto** EDF'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 duties¹¹.

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

Relevant objective (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.

EDF propose to remove a capping arrangement that was intended to smooth any volatility in generation charges over the current price control period (ie DPCR4 - 2005 to 2010). Because the charge cap was only limited to the current price control period (and in any case has had no effect on charges because it overestimated the potential volatility in charges), EDF propose to remove it.

We consider that the removal of the charge cap is appropriate because it will ensure that any future changes to charges for generators are more cost reflective. In particular, the removal of the cap will mean that existing generation customers' final charges fully reflect the charges EDF's methodology calculates. Also, the removal will mean that other customers' charges are not unnecessarily inflated/deflated so as to recover revenue that cannot be recovered from existing customers who have their charges capped. Therefore, we consider that EDF's proposal will better achieve relevant objective (c).

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 EDF 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 Methodology¹². On the same day, DPCR5 Final Proposals will be implemented.

Generally speaking, EDF propose to make incidental changes to their SLC 13 UoS methodology to ensure that following the revocation of their HV/LV methodologies it remains a 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 these changes are intended to clarify that the SLC 13 UoS methodology only applies to EHV charges and are appropriate to facilitate the introduction of the CDCM.

The most substantive change that EDF proposes is to make it clear how allowed revenue is calculated and used in conjunction with the CDCM. 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 to

¹¹ 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.

¹² Which, until 1 April 2010, covers the calculation of charges for HV/LV and EHV customers.

calculating allowed revenue. EDF's proposal will ensure that total allowed revenue is clearly apportioned between the EHV and HV/LV methodologies.

Following the publication of DPCR5 Final Proposals, EDF also make clear in the methodology that an exemption that currently applies to them from not charging pre-2005 DG will expire on 1 April 2010. Consequently, in collaboration with other distribution businesses and industry stakeholders, EDF plan to develop and implement appropriate arrangements for charging pre-2005 DG. EDF propose to continue not to charge pre-2005 DG until such arrangements are in place. We consider that in light of the policy set in DPCR5, the clarity EDF have added to their methodology is welcome and should effectively manage stakeholders' expectations in relation to pre-2005 DG charging.

In light of the impending implementation of the CDCM and DPCR5 Final Proposals, we consider that the changes proposed by EDF are necessary and will ensure that 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.

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