



Electricity Distribution Licensees
and other interested parties

*Promoting choice and
value for all customers*

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8 July 2010

Dear Colleague,

Derogation from Standard Condition 24 (Distribution System planning standard and quality of performance reporting) of the Electricity Distribution Licence

In a Direction given in March 2007 we commenced a two year trial period relieving electricity distribution licensees of their obligation¹ to comply with Engineering Recommendation P2/6 ("P2/6") Table 1 in respect of those parts of the distribution system where the Group Demand was less than 60MW and when specific conditions set out in that direction were satisfied ("the initial derogation"). In our open letter of 4 March 2010 ("the consultation") we sought views on our proposal to extend the period of this derogation.

The purpose of the initial derogation was to simplify arrangements relating to the management of compliance with P2/6². In its consultation paper of 28 February 2006³ the Authority acknowledged that compliance with P2/6 can be difficult to maintain on all parts of a licensee's distribution system as the licensee does not have certainty about or control over customer actions. It considered that it is generally in the wider interests of customers that electricity distribution licensees use their best commercial and engineering judgment when considering forecast demand and making decisions in relation to expenditure on measures to reinforce a distribution system to ensure P2/6 compliance.

We received five responses to the consultation of 4 March 2010, and we have published these on our website⁴. None of the respondents offered any objection to our proposal.

¹ Contained within what is now Standard Licence Condition ("SLC") 24.1(a) of the Electricity Distribution Licence.

² Although at the time, the relevant standard was Engineering Recommendation P2/5. A separate consultation addressed and resulted in the approval of P2/6 as a replacement for P2/5.

³ <http://www.ofgem.gov.uk/Networks/Techn/TechStandds/Derogtns/Documents1/13061-3906.pdf>

⁴ <http://www.ofgem.gov.uk/Networks/Techn/TechStandds/Pages/TechStandds.aspx>

After the consultation closing date we contacted all those electricity distribution licensees who had not responded, and they confirmed that they were content with our proposal.

The Authority's Decision

We have considered the responses to the consultation and the subsequent communication with electricity distribution licensees in accordance with our principal objective and general duties. We have also considered the factors set out in our "Guidance on licence derogation requests"⁵. We note:

- None of the respondents to the consultation considered there to be any evidence that the arrangements trialled have caused any deterioration of service to customers.
- Our continuing focus on outputs in Distribution Price Control Review 5 (DCPR5) has placed increasing pressure on DNOs to maintain or improve the reliability of networks going forward and to deliver appropriate reinforcement of their networks for demand growth.

For these reasons we have decided to direct that the period of the derogation be extended until 31 March 2015.

The period of further derogation is to properly establish whether the derogation causes any negative impact on network reliability. By 31 March 2015 the derogation will have been in place for a continuous period of just over 7 years. We believe that any negative impact would be evident by the end of this period. We will then, subject to further consultation, be able to decide whether to propose a change to the Standard Conditions of the Electricity Distribution Licence to make the arrangement permanent, or to take some other course.

Attached to this letter is a copy of the Direction for the purposes of the derogation. Whilst the Direction has not changed materially from that issued in March 2007, we have clarified the wording.

This letter constitutes notice for the purposes of section 49A of the Electricity Act 1989 in relation to the Direction.

Yours faithfully



Rachel Fletcher

Partner, Distribution

⁵ <http://www.ofgem.gov.uk/Networks/Tech/TechStandds/Derogtns/Pages/Derogtns.aspx>

The Company Secretary

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Direction issued to [Licensee name] by the Gas and Electricity Markets Authority pursuant to paragraph 24.2 of Standard Licence Condition 24 of the Electricity Distribution Licence

1. This Direction is issued by the Gas and Electricity Markets Authority ("the Authority") pursuant to paragraph 24.2 of Standard Licence Condition ("SLC") 24 of the Electricity Distribution Licence ("the Licence"), granted or treated as granted under section 6(1)(c) of the Electricity Act 1989 ("the Act"), to [Licensee name] ("the Licensee").
2. Paragraph 24.2 of SLC 24 of the Licence provides that the Authority may, following consultation, give a direction relieving the Licensee of its obligation under paragraph 24.1 of SLC 24 of the Licence in respect of such parts of the Licensee's distribution system, to such extent, and subject to such conditions as may be specified in the direction.
3. The Authority hereby directs, pursuant to paragraph 24.2 of SLC 24 of the Licence, that subject to paragraphs 4, 5 and 6 of this Direction the Licensee is relieved of its obligation under paragraph 24.1(a) of SLC 24 of the Licence to plan and develop its distribution system in accordance with a standard not less than that set out in Table 1 of Engineering Recommendation P2/6 of the Energy Networks Association.
4. This Direction applies where a temporary compliance issue in relation to the Licensee's distribution system is caused by a change to the Group Demand¹ and the Licensee would not reasonably be expected to have:
 - predicted the change to the Group Demand on that section of its distribution system which resulted in the compliance issue;
 - identified and evaluated possible design solution options in time to address the compliance issue;
 - secured financial provision for its preferred design solution option in time to address the compliance issue; or
 - implemented its preferred design solution option in time to maintain compliance.

¹ 'Group Demand' being as defined in Engineering Recommendation P2/6, specifically:
"DNO's estimate of the maximum demand of the group being assessed for ER P2/6 compliance with appropriate allowance for diversity. The Group Demand at grid supply points must be consistent with the demand data submitted to a transmission company under the terms of the GB Grid Code".

5. This Direction applies in respect of the Licensee's distribution system except those parts:
- where the Group Demand is more than 60MW;
 - which include interconnection with another licensee's distribution or transmission system(s);
 - where the effect of a compliance issue would reduce the security afforded to one or more customers, who have special security of supply requirements in order to manage safety hazards at the customer's site, to a level below that which has been contractually agreed between the Licensee and the customer(s); or
 - where the Licensee has a specific derogation for the compliance issue.
6. This Direction applies in respect of temporary compliance issues that the Licensee has identified on the Licensee's distribution system, subject to the Licensee:
- taking all reasonable measures at all times to mitigate the consequences of a part of its distribution network not meeting the recommended normal level of security required by SLC 24;
 - actively identifying, evaluating and progressing solutions to restore compliance with SLC 24.1(a) in a timely manner; and
 - maintaining records of any identified non-compliance with SLC 24.1(a) and the actions taken to investigate and remedy such non-compliance issues, at least until compliance is restored, such records to be made available to the Authority at its reasonable request.
7. This Direction shall take immediate effect and shall remain in effect until 31 March 2015 or such other time as the Authority shall direct, should it revoke or vary this Direction in writing upon reasonable notice.

Dated: 8 July 2010

**SIGNED on behalf of the Authority by
Rachel Fletcher, Partner, Distribution**

Authorised for that purpose by the Authority