



To DNO Company Secretaries

*Promoting choice and value for
all gas and electricity customers*

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Dear Company Secretary

**Derogation pursuant to paragraph 50A.38 of Standard Licence Condition 50A
(Development and implementation of an EHV Distribution Charging Methodology)
of the Electricity Distribution Licence – submission deadline**

On 23 August 2010 Ofgem consulted on revised timelines for submission and implementation of the EHV Distribution Charging Methodology (EDCM)¹. The consultation closed on 26 August.

Following our consultation, we are issuing separate decisions on submission and implementation dates. This letter sets out our reasons to direct² DNOs to submit their proposed EDCMs to Ofgem for consideration by 1 February 2011 instead of 1 September 2010. In the light of responses, we are considering whether it is appropriate to move the implementation date to October 2011 (as per our consultation) or April 2012, which suppliers and others would find more convenient. We will publish our decision regarding an EDCM implementation date in September. Should we decide on an April 2012 implementation date we will consider then whether it is sensible to defer the submission date to April 2011.

Licence requirements

The electricity distribution licence currently requires DNOs to develop common EDCMs for submission to the Authority by 1 September 2010 (SLC 50A.17). Alongside this is the requirement for DNOs to submit illustrative prices to customers on a 2010/11 charging basis by 1 September 2010 (SLC 50A.18). The licence also refers to the project implementation date (SLC 50A.16). We consulted on derogating against these licence requirements.

SLC 50A.38 allows us to derogate to relieve DNOs from these requirements. This letter provides a derogation against SLC 50A.17 and SLC 50A.18 until 1 February 2011. The reasons for our derogation and the nature of the derogation is set out below.

Responses to our consultation

We received more than thirty responses to our consultation. Non-confidential responses are published on our website³.

¹ See our website at <http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Pages/DistChrgs.aspx>.

² The words 'direct' and 'derogate' are used interchangeably in this letter.

³ See our website at <http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Pages/DistChrgs.aspx>.

Submission date

The vast majority of respondents supported the delay to DNOs' submitting their proposals and many comment that the reasons set out in our consultation letter were sound. A number of responses note that parties need further time to understand the methodology and the associated impacts on them.

One customer, however, wants certainty as soon as possible and does not want to delay submission for this reason. Two DNOs would prefer to submit on 1 September, but one acknowledges that should a consensus be for delay then the submission date should be 1 March 2011 rather than 1 February. The same DNO notes that a later submission date will ensure final prices at lower voltages have been published⁴. IDNO responses argue for maintaining the current timetable to ensure arrangements can be brought in for independent DNO (IDNO) connections at EHV level from April 2011.

The impact of delay means that the boundary between CDCM and EDCM customers will take effect from a revised implementation date. This was generally supported by the few respondents who commented on this who noted that customers who are affected by the decision can be consulted on EDCM proposals and that the delayed submission gives further time for these arrangements to bed in.

Nature of the derogation

Of those comments received on the nature of the derogation, respondents generally agreed with the steps set out in our consultation letter regarding the need for DNOs to fully consult parties and to aid customers' understanding of the methodology. Some customers set out that they consider that more consultation would lead to a more considered outcome for customers, including consideration of the pricing impact of the move to a new methodology. Customers generally agree that the extra time should be used to ensure the EDCM is clear and is appropriate for them.

Authority decision

We have carefully considered responses to our consultation. The Authority has decided to issue a definite derogation against the requirements to submit proposals for 1 September 2010 set out in SLC 50A.17 and SLC 50A.18. The derogation will expire on 1 February 2011.

We have decided to revise the submission date to 1 February 2011 for the following reasons:

- Delaying the submission date will enable DNOs to fully consult their customers ahead of submission, and ensure they understand the proposals and are able to feed in to commenting on whether they appear appropriate.
- Delay will ensure DNOs are comfortable with their submission. It is DNOs' responsibility to ensure they submit something to the Authority that is capable of approval. Where charges do not appear sensible DNOs need to address this and they (rather than Ofgem) are accountable for addressing these issues ahead of submitting their proposals.
- It will give time to ensure EHV boundary arrangements can bed in.
- A February submission date will maintain focus on the project whilst allowing for this further consultation and customer involvement.
- We acknowledge responses regarding charging arrangements for IDNOs. We consider that on balance the revised timeline for submission on 1 February 2011 is appropriate. Should IDNOs believe there is a material impact on their businesses arising from this decision they will need to demonstrate this. We will then consider

⁴ DNOs are required to publish their final prices for 1 April/1 October by giving 40 days' notice. They give three months' notice of their indicative charges each year, meaning that these are published by 31 December/ 31 July.

whether further action is demonstrated to be proportionate and required ahead of any revised EDCM implementation date.

Alongside the revised EDCM submission date we are derogating against the date for submitting a full set of illustrative prices under SLC 50A.18 to bring this in line with the revised 1 February submission date.

Nature of the derogation

The nature of the derogation recognises the importance of the activities the DNOs are required to carry out in the lead up to 1 February, including the requirement for DNOs:

- To consult with customers on the EDCM before Christmas.
- To amend the methodology as appropriate to address customer and other comments ahead of submission to the Authority and provide Ofgem with an explanation of which issues have been addressed and which are remaining. Our expectation is for DNOs to submit proposals that they do not think will need substantial further work ahead of implementation.
- To make changes to the methodology as required following sense checks, to ensure they are able to justify the level of charges - particularly where charges are moving significantly (either up or down) from current levels.
- To work closely with customers to ensure they understand the methodology and their illustrative charges such that they are up to date and are able to comment on project developments where they wish to. This should include working with customers to explore ways in which they might be able to manage their use of system costs.

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

Yours faithfully



Rachel Fletcher
Partner – Distribution
For and on behalf of the Authority