



Licensed distribution network operators, generators, suppliers, customers and other interested parties

Promoting choice and value for all gas and electricity customers

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Dear colleague

Consultation on revised submission and implementation dates for the EHV Distribution Charging Methodology

Consultation pursuant to standard licence condition (SLC) 50A.38 of the electricity distribution licence in relation to proposals for the Authority issuing a derogation against licensees' obligations in Part C of SLC 50A

Summary

This letter consults on a revised timeline in respect of work to deliver common methodologies and more cost reflective charges to customers at the highest (EHV) voltage levels.

The DNOs are currently required by their distribution licences to submit an EHV Distribution Charging Methodology (EDCM) on 1 September. We understand the DNOs are ready to meet this deadline. However, we are minded to instruct the DNOs to hold off submitting their proposals until 1 February 2011, with the new charges being implemented on 1 October 2011.

We seek views on this approach by 4pm on Thursday 26 August. Subject to any objections to this approach, we intend to formally derogate DNOs from the licence requirement to submit by 1 September 2010 and to extend the implementation date to 1 October 2011¹. We explain the background to this and associated issues below.

Ongoing work and impact on customers

The EDCM project is intended to deliver new, more cost reflective charging methodologies to users at the highest (EHV) voltage levels alongside new open governance arrangements for implementation from 1 April 2011. The methodology for lower voltages (the CDCM²) was introduced in 2010. More cost reflective charging arrangements are necessary to encourage efficient siting and use of network decisions, particularly for larger users. These arrangements will also reward users who provide a benefit to the distribution network, for example distributed generation located close to load or customers implementing demand side management³.

¹ Specifically to derogate in respect of SLCs 50A.16, 50A.17 and 50A.18.

² The CDCM is the Common Distribution Charging Methodology which applies to customers at lower (HV and LV) voltages.

³ Further project background is available on our website at:
<http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Pages/DistChrgs.aspx>.

The current timetable (which involves Ofgem consulting and arriving at a decision on the proposals by end December) was drawn up on the expectation that, by the date of submission, customers would be familiar with the DNOs' proposals and would be able to provide their views on the methodology to Ofgem shortly after the 1 September submission.

The DNOs consulted on their proposed EHV methodologies in June 2010⁴. Since then the charges proposed by the DNOs have changed dramatically. For example, the approach to demand and generator scaling has been further developed and there has been work to limit charges on certain areas of the network. It is important that customers have an opportunity to review these changes in detail and raise any concerns or comments they have on the new methodology.

In addition, as a result of our decision on the charging boundary⁵, more customers will be captured by the method from the time it is implemented. These customers have not yet had a chance to comment on the methodology.

Furthermore, the DNOs expect to do further work on the methodology after 1 September and we expect some changes to arise as a result of this work. In particular we note that there may be further work to do on scaling and in sense checking the charges arising from the current methodology. Further work is likely to arise once stakeholders have reviewed the current version of the methodology.

As things stand, we think the current timetable may not give customers sufficient visibility of the proposed charges or adequate time to absorb the changes and provide us with their views. A number of customers have already indicated that they need greater notice of price changes than this timetable provides.

Nature of derogation

Subject to a review of responses to this consultation we propose to derogate the DNOs from the 1 September 2010 deadline and set 1 February 2011 as the new deadline, with implementation on 1 October 2011.

We remain committed to the implementation of the EDCM and to the proactive involvement of consumers in the consideration of EDCM issues and implications. We will continue to work alongside the DNOs to meet any new timetable. We propose that our derogation will underline the importance of the activities the DNOs are required to carry out in the lead up to 1 February, including the need 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

⁴ See <http://energynetworks.squarespace.com/edcm-file-storage/12-18th-june-2010-edcm-consultation-common-methodology-group/>.

⁵ 'Electricity distribution charging boundary between higher (EDCM) and lower (CDCM) voltages', July 2010, ref 90/10, available on our website at: <http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/EHV%20boundary%20decision%201007.pdf>.

customers to explore ways in which they might be able to manage their use of system costs.

Changing the submission deadline to 1 February 2011 will enable the DNOs to do this work and give customers and other interested parties greater visibility of charges and involvement in developing the methodology prior to submission. We do not envisage the need for any further changes to the submission date and expect the DNOs to comply with their licence obligations.

Following submission of the ECDM by 1 February 2011, we propose to conduct a further consultation and impact assessment. We will look to conclude this by end of May 2011 to give customers certainty as to the charges they will face and a longer lead time to adjust to the new charges.

We are reviewing the licence further with respect to changes to other dates in the licence which will be required as a result of derogation and intend to tidy up the licence following this review.

Views sought

As set out above we seek views on project timelines and our minded to derogation by **4pm on Thursday 26 August**. Please send your responses by email to distributionpolicy@ofgem.gov.uk. All responses will be published unless marked confidential. Please call Colette Schrier on 0207 901 7341 if you have any queries in relation to this consultation.

Yours sincerely

Rachel Fletcher
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