



To Distribution Licence Holders,
Suppliers, Generators, other
interested parties

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

Direct Dial: 0141 331 6015
Email: Roberta.fernie@ofgem.gov.uk

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Dear colleague,

Proposed licence modifications: governance arrangements for electricity distribution use of system charging methodology

The purpose of this open letter consultation is to set out proposed modifications to the electricity distribution standard licence conditions (SLCs) that we consider are necessary to bring the governance of the electricity distribution use of system charging methodology in line with conclusions of the Code Governance Review. In particular, we propose to make the Authority decision process for changes to use of system charging methodologies consistent with those for code modifications.

We also propose to update and simplify the licence conditions to reflect that a large part of the governance arrangements for electricity distribution use of system methodologies are now contained in the Distribution Connection and Use of System Agreement (DCUSA). We set out the next steps we will take to introduce necessary changes, and seek comments on the modifications proposed.

Background

In March 2010 we published our decision document on our final proposals for the Code Governance Review¹ ('the March Decision document'). In our March Decision document we set out, amongst other things, that the governance arrangements for distribution use of system methodologies should be included in the relevant industry code.

Separately we have been working with the Distribution Network Operators (DNOs) to develop a common electricity distribution use of system charging methodology through the structure of charges project². This has included introducing new licence obligations (SLCs 50³ and 50A⁴) which require Distribution Network Operators (DNOs) to develop the Common Distribution Charging Methodology (CDCM)⁵ for the lower voltage levels and the Extra High Voltage Distribution Charging Methodology (EDCM)⁶ for the highest voltage levels. As part of these requirements, DNOs were obliged to develop and bring forward for approval to the Authority arrangements for handling modification proposals to the CDCM and the EDCM. As a result of this, DCUSA Change Proposal (DCP) 46B proposed to introduce governance arrangements into the DCUSA for both CDCM and EDCM. The effect of this change proposal was to allow, amongst other things, any DCUSA party and, with the

¹ http://www.ofgem.gov.uk/Licensing/IndCodes/CGR/Documents1/CGR_Finalproposals_310310.pdf

² <http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Pages/DistChrgs.aspx>

³ Development and implementation of a Common Distribution Charging Methodology

⁴ Development and implementation of an EHV Distribution Charging Methodology

⁵ The charging boundary where this is applicable is set out at SLC 13A.5(a) and (b)

⁶ The charging boundary where this is applicable is set out at SLC 13B.6(a), (b), (c) and (d)

written consent of the Authority, any person materially affected by the CDCM or the EDCM to formally raise and have modification proposals to either methodology consulted on and referred to the Authority. On 18 December 2009, the Authority issued a decision letter setting out that the changes to the DCUSA contained in DCP46B should be made⁷.

Scope of changes

In our March Decision document we set out our view that the governance arrangements for use of system charging methodologies (including the CDCM and EDCM) should be set out in the relevant industry code and that:

- the arrangements should allow materially affected parties to propose changes
- the Authority should be able to designate a non-code party as a materially affected party
- the existing code decision making framework should apply to charging methodology modification proposals, ie it is the Authority's aim to issue a decision within a specified Key Performance Indicator (KPI)⁸
- a requirement to maintain charging forums.

Most of these arrangements have already been delivered by the DNOs following approval of DCP46B and the governance arrangements for CDCM and EDCM are now included in the DCUSA. However the changes to the code decision making framework are outstanding. To implement these new arrangements, a change is required to the electricity distribution licence. This consultation seeks views on the proposed licence changes to deliver this part of the Code Governance Review decision to electricity distribution. In addition the electricity distribution SLCs do not reflect the introduction of the use of system charging arrangements into DCUSA. For this reason, we also propose a number of further modifications to the electricity distribution SLCs.

In summary the proposed modifications are:

- amendment to SLC22A (Governance and change control arrangements for Relevant Charging Methodologies), so that any modifications to the CDCM and EDCM must only be implemented in the same manner as other Part 1 code modifications, albeit with different relevant objectives⁹, ie a report with a recommendation is sent to the Authority and modifications can only be implemented if the Authority directs the licensee, in conjunction with every other electricity distributor, to amend the CDCM or EDCM. This means that the current Authority veto process would need to be removed from the DCUSA
- removing reference in SLC13A (Common Distribution Charging Methodology) to the veto process under the licence of proposed modifications to the CDCM, for example the removal of paragraph 13A.17. We also intend to amend Appendix 1 of SLC50 (Development and implementation of a Common Distribution Charging Methodology) in the same way
- a similar modification to SLC13B (EHV Distribution Charging Methodology) to remove the veto process under the licence of proposed modifications to the EDCM, for example the removal of paragraph 13B.19. We also intend to amend Appendix 1 of SLC50A (Development and implementation of an EHV Distribution Charging Methodology) in the same way

⁷ <http://www.ofgem.gov.uk/Licensing/ElecCodes/DCUSA/Changes/Documents1/DCP046D.pdf>

⁸ The self imposed current KPI for making code decisions is 25 working days with an open ended time frame if we consider that we need to undertake an Impact Assessment.

⁹ See SLC 22A.14(c): modification proposals raised under DCUSA in relation to the CDCM and EDCM must be assessed against the Applicable Charging Methodology Objectives specified in SLC 22A (Governance and change control arrangements for Relevant Charging Methodologies) and not the Applicable DCUSA Objectives specified in SLC 22 (Distribution Connection and Use of System Agreement).

- moving certain obligations concerning governance arrangements that relate to the requirements under the DCUSA from SLC13A and SLC13B to sit more appropriately under Part D SLC22A (Governance and change control arrangements for Relevant Charging Methodologies)
- making it clear in SLC13 (Charging Methodologies for Use of System) when this SLC is not applicable due to requirements in SLC13A and SLC13B
- a requirement under SLC22A that licensees will continue to be required to meet periodically with other Distribution Services Providers, other Authorised Electricity Operators and any other person whose interests are materially affected by the CDCM or the EDCM to discuss the development of the charging methodologies following the implementation of the two charging methodologies. This requirement is currently in SLC50.25 and SLC50A.27 and sits better in SLC22A
- a transitional provision in SLC22A that captures any proposed modifications to the CDCM that are reported to the Authority and the veto period has not expired before these proposed licence modifications, if approved, come into effect. This is to ensure validity of those reported proposed modifications.

Attached at Appendix 1 to this open consultation letter is proposed amended drafting to the relevant electricity distribution SLCs. Appendix 2 contains a table that lists each proposed licence modification along with the reason for proposing it.

Views invited

We would very much welcome respondents' views on these proposed modifications to the electricity distribution SLCs. Views received will inform our decision on whether to proceed to a formal modification process.

Unless marked confidential, all responses will be published by placing them on our website www.ofgem.gov.uk. Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

We also propose to hold a workshop during the consultation period for interested parties. All consultation responses should be emailed to Roberta.Fernie@ofgem.gov.uk by **1 November 2010**. Anyone who wishes to take part in the workshop should contact Roberta Fernie at Roberta.Fernie@ofgem.gov.uk or by calling 0141 331 6015 by Monday 11 October 2010.

Next Steps

Following the conclusion of this consultation we will publish a letter that outlines the responses that we received and sets out our views on any issues raised by respondents.

If appropriate, we expect to issue, along with that letter, a statutory licence modification consultation which will set out any modifications to the electricity distribution SLCs that we consider may be required.

We acknowledge that there is on-going work in relation to the electricity distribution structure of charges project that may require further changes to the electricity distribution licence. For example, tidying up the licence to address recent delays to the EDCM timeline¹⁰ in order to implement our decision on the charging boundary between CDCM and EDCM

¹⁰ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=608&refer=Networks/ElecDist/Policy/DistChrgs>

customers¹¹. We will consult on these changes in due course and they are not addressed within this consultation.

Yours sincerely,

Mark Cox
Associate Partner, Industry Codes and Licensing

¹¹ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=599&refer=Networks/ElecDist/Policy/DistChrgs>