



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 and implementation deadlines**

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, on 27 August 2010 we issued a decision regarding submission dates and derogated Distribution Network Operators (DNOs) from the requirement to submit by 1 September 2010. In our derogation we explained we would issue separate decisions on submission and implementation dates. We initially directed DNOs to submit their proposals by 1 February 2011.

At that time we explained that in the light of responses:

- We would consider whether it is appropriate to move the implementation date to 1 October 2011 (as per our August consultation) or 1 April 2012, which suppliers and others would find more convenient.
- We would publish our decision regarding an EDCM implementation date in September.
- Should we decide on a 1 April 2012 implementation date we would consider whether it is sensible to defer the submission date to 1 April 2011.

On 22 September we published our decisions regarding project timelines². Our decision is for a 1 April 2011 submission date and a 1 April 2012 implementation date.

This letter sets out our reasons to derogate the DNOs from their current obligations to submit their proposed EDCMs and associated illustrative charges to Ofgem for consideration by 1 April 2011 and to implement the EDCM by 1 April 2012.

¹ 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, ref 112/10, 23 August 2010. Available on our website at: <http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/EDCM%20timelines%20consultation%2023Aug.pdf>.

² Decision on revised submission and implementation dates for the EHV Distribution Charging Methodology (EDCM), ref 120/10, 22 September 2010, available on our website at: <http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/EDCM%20timelines%20decision.pdf>.

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 by 1 September 2010 (SLC 50A.18). The licence also refers (SLC 50A.16) to the need to meet the project implementation date.

SLC 50A.38 allows us to derogate to relieve DNOs from these requirements. We consulted on derogating against these licence requirements. On 27 August we allowed DNOs up to 1 February 2011 to meet SLC 50A.17 and SLC 50A.18 via a derogation.

Alongside these derogations we have continued to review the licence further with respect to changes to other dates in the licence which will be required as a result of changing the project timelines and intend to tidy up the licence following this review.

Responses to our consultation

We received more than thirty responses to our consultation. Non-confidential responses are published on our website³. We summarised responses in the annex to our decision regarding EDCM project timelines⁴.

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 and to extend the derogation originally allowing a 1 February 2011 submission deadline to 1 April 2011. The derogation will now expire on 1 April 2011.
- Issue a definite derogation against the requirements set out in SLC 50A.16 to give effect to the EDCM by not later than the Implementation Date (which is currently set in SLC 50A.2) of 1 April 2011. The derogation will expire on 1 April 2012, or may be superseded by a licence change should the licence be amended to reflect the new Implementation Date in SLC 50A.2.

The reasons for our decisions are set out in our 22 September decision regarding timelines. In summary, we have decided to extend the submission date to 1 April 2011 from 1 February 2011 for the following reasons:

- Our decision for an implementation date of 1 April 2012 allows more time for DNOs to submit their proposals. Extending the submission date to 1 April 2011 balances the needs of customers for longer lead times and DNOs' need to further develop their proposals. It also allows DNOs to take in to account their final 1 April 2012 charges⁵.
- These revised timescales should enable the DNOs to ensure that customers understand the methodology and have a chance to comment on recent amendments to the DNO proposals. We expect the DNOs to use the extended timeframe to subject the tariffs arising from the methodology to further sense checking so that they are able to fully justify any particularly large changes in tariff levels.

We have decided to revise the implementation date to 1 April 2012 for the following reasons:

³ Published on our website at:

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

⁴ See footnote 2.

⁵ 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.

- To allow customers a longer lead time to prepare for any new tariff levels that come about as a result of the introduction of the EDCM.
- To allow the change in charging boundary⁶ (which extends the number of customers subject to the EDCM) to bed in and to allow time for associated line loss factors to be sorted.
- To effect implementation at the beginning of the financial year (April 2012) rather than mid way though (October 2011) because midyear charge changes require significant work for both suppliers and DNOs and may cause additional costs to be passed on to customers.

We have decided to extend the derogation against the date for submitting a full set of illustrative prices under SLC 50A.18 to bring this in line with the revised 1 April 2011 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 April 2011, including the requirement for DNOs:

- To start consulting 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

⁶ 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>.