



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

Decision on revised submission and implementation dates for the EHV Distribution Charging Methodology (EDCM)

On 23 August 2010 Ofgem consulted¹ on revised timelines for DNO submission of new EHV² Distribution Charging Methodology (EDCM) proposals and for implementation of the EDCM. The consultation closed on 26 August.

This letter sets out our decision to revise the EDCM implementation date from 1 April 2011 to 1 April 2012, and to defer the date by which DNOs must submit their EDCM proposals to 1 April 2011. The reasons for our decision are set out below.

Background

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. The common methodology for determining charges at lower voltages (CDCM³) was introduced in April 2010, and affected parties are now able to bring forward change proposals for this methodology.

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 management.

Each DNO's distribution licence specifies that DNOs have to submit common EDCM proposals to the Authority by 1 September 2010 with an implementation date of 1 April 2011.

Our August consultation set out that subject to a review of responses we proposed 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 proposed to delay the project to ensure affected customers are consulted fully on the DNOs' final package of proposals ahead of submission and to enable DNOs' work to be completed. We also set out concerns

¹ Document reference 112/10, available on our website at:
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=599&refer=Networks/ElecDist/Policy/DistChrgs>
Further project background details are available on our website at:
<http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Pages/DistChrgs.aspx>.

² Extra high voltage.

³ The CDCM is the Common Distribution Charging Methodology which applies to customers at lower (HV and LV) voltages.

that as things stood in August, the original timetable would not give customers sufficient visibility of the proposed charges or adequate time to absorb the changes and provide us with their views.

Following consultation we agreed first to derogate⁴ the DNOs from the requirement to meet the 1 September 2010 deadline. We set 1 February 2011 as the new submission date. However, we noted that a number of respondents to the consultation had argued that 1 October 2011 was not an appropriate implementation date for the EDCM. We undertook at that time to consider further the appropriate implementation date and, if we were persuaded to set this at 1 April 2012, to consider putting back the DNO submission date to 1 April 2011.

An overview of the responses we received to our consultation is attached as an annex to this letter.

After further consideration, we have decided that the EDCM should be implemented on 1 April 2012 and that the DNOs should be required to bring forward their proposed methodologies by 1 April 2011. We expect that 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 also 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 made this decision also 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.

Next steps

We will extend the derogation issued on 27 August 2010 by issuing a new direction to the DNOs to derogate them from the requirement to submit their EDCM methodologies and associated illustrative charges by 1 February 2011, setting 1 April 2011 as the new deadline⁵.

We will issue a direction to the DNOs to derogate them from the EDCM methodology implementation date set out in the licence with 1 April 2012 as the new implementation date⁶.

The change of implementation date will have the following impacts:

- The revised charging boundary⁷ will take effect from the revised implementation date of 1 April 2012.
- Distributed generators (DG) connected at EHV who connected on pre-April 2005 terms will be subject to the arrangements for DG customers that will come into effect on the revised implementation date of 1 April 2012.
- We are continuing 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.

⁴ Our 27 August derogation letter is published on our website at:
[http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/Derogation%20regarding%20revised%20submission%20date%20for%20the%20EHV%20Distribution%20Charging%20Methodology%20\(EDCM\).pdf](http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/Derogation%20regarding%20revised%20submission%20date%20for%20the%20EHV%20Distribution%20Charging%20Methodology%20(EDCM).pdf).

⁵ In respect of licence conditions 50A.17 and 50A.18.

⁶ In respect of licence condition 50A.16.

⁷ Our charging boundary decision (July 2010, reference 90/10) is published on our website at:
<http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/EHV%20boundary%20decision%201007.pdf>.

Following submission of the ECDM by 1 April 2011, we propose to conduct a consultation and impact assessment on the submitted methodologies. We anticipate making our decisions on DNOs' submissions by end August 2011.

Please contact Colette Schrier on 0207 901 7341 if you have any queries in relation to this decision.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Rachel Fletcher', is written over a light grey rectangular background.

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

Annex – Summary of consultation responses

We received more than thirty responses to our consultation. Non-confidential responses are published on our website⁸.

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.

A couple of responses wanted no delay to the project. One customer 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 2011, but one acknowledges that should a consensus be for delay then the submission date should be 1 March 2011 rather than 1 February 2011. The same DNO notes that a later submission date will ensure final prices at lower voltages have been published⁹. Independent DNO (IDNO) responses argue for maintaining the current timetable to ensure arrangements can be brought in for IDNO connections at EHV level from 1 April 2011.

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. Customers generally agree that the extra time should be used to ensure the EDCM is clear and is appropriate for them.

Implementation date

Around half of responses to our August consultation regarding revised implementation and submission dates concluded that an implementation date of 1 April 2012 would be preferable to 1 October 2011 implementation, for a number of reasons:

- A number of customers want more lead time beyond 1 October 2011 to budget for and to absorb price movements as the lead times for October still do not provide enough time to allow for year-ahead budgetting.
- Mid year charge changes require significant work for both suppliers and DNOs. They are mid way through the April to April financial year. Some respondents noted they do not fit well with suppliers' lead times given the timing of their contract rounds. A short lead time means suppliers may build in a "risk premium" (e.g. when carrying out their contract negotiations) to cover uncertainty of prices. Any premium will be passed on in higher costs to customers.
- Our decision on extending the number of customers subject to EDCM (the charging boundary¹⁰) means that customers moving from CDCM to EDCM would do this mid year. Suppliers, in particular small suppliers, have noted this will present problems, for example with changing their contracts mid year.
- Elexon noted it would be preferable to implement changes to line loss factors and processes required as a result of the new charging boundary from 1 April 2012 rather than 1 October 2011.

⁸ See our website at:

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

⁹ 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.

¹⁰ See footnote 7.