



To: electricity distributors,
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 licence modifications in relation to the revised delivery dates for the EHV Distribution Charging Methodology (EDCM) and the new distribution charging boundary between higher and lower voltages

Distribution network operators (DNOs) are currently developing a common charging methodology for the extra high voltage levels (EDCM). This EDCM project is intended to encourage efficient siting and use of network decisions, particularly for large users. In accordance with Ofgem's decision of 31 July 2009, DNOs were required to develop and bring forward an EDCM by September 2010 for Ofgem to approve, and to ensure that the EDCM, if approved by Ofgem, would be in force by April 2011.

We reviewed the EDCM delivery dates this summer. Following a consultation on revised timelines for DNOs to submit and implement the EDCM in August 2010¹, we issued a decision² regarding the timelines on 22 September ('September decision'). The decision is that DNOs will submit their EDCM proposals to Ofgem by 1 April 2011, with implementation of the EDCM on 1 April 2012. We issued derogations on 30 September 2010³ to implement the decision. At that time we noted that we would review the distribution licence further to identify changes to other dates in the licence which will be required as a result of the September decision.

Ofgem has now decided to amend the standard licence conditions (SLCs) to ensure the licence reflects project developments, as explained in more detail below. We are also seeking to tidy up the way of defining the new distribution charging boundary rule in the licence in line with our decision of 22 July 2010⁴ ('July decision').

We have discussed the drafting with affected licensees and are publishing a statutory consultation today alongside this letter which is designed to effect these changes.

Extending EDCM submission and implementation dates

¹ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=599&refer=Networks/ElecDist/Policy/DistChrgs>

² See the document at <http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/EDCM%20timelines%20decision.pdf>

³ See the document at <http://www.ofgem.gov.uk/NETWORKS/ELECDIST/POLICY/DISTCHRGs/Documents1/Derogation%20implementati on%20submission.pdf>

⁴ See the document at <http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/EHV%20boundary%20decision%201007.pdf>

We explained the reasons for extending the EDCM delivery dates in detail in a number of decision documents published in recent months. They are summarised below:

1. We consulted on revised timelines in August and received more than thirty responses to our consultation⁵. The vast majority of respondents considered the reasons we put forward for delaying the dates for DNOs to submit their EDCM proposals and implement the EDCM were sound. For example, extending the timelines would ensure that customers would have an opportunity to review and comment on recent EDCM development work prior to DNOs submitting their proposals to us⁶. A number of customers also indicated their requirement for more time to manage the potential financial impact of the move from current charging arrangements to the EDCM.
2. The revised timescales allow more time for DNOs to develop their proposals and 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. The new timescales should enable DNOs to ensure that customers understand the methodology and have a chance to comment on recent amendments to DNOs' proposals.
3. Our September decision concluded that extending the EDCM submission and implementation dates represents an appropriate balance between customers' and DNOs' needs. This includes allowing the new distribution charging boundary rule (which increases the number of customers subject to the EDCM) to bed in and providing time to resolve implementation issues such as auditing line loss factors⁷.

Revising regulatory year for submitting illustrative charges

The new 1 April 2011 submission date for the EDCM means that DNOs can update their charging model by a year to incorporate the latest charging and financial data at that time. This means the charging models can be submitted on a 2011/12 Regulatory Year basis. The original licence requirement (based on the old 1 September 2010 submission date) is submitting charging models on a 2010/11 basis.

We consider that this change to the licence requirement from 2010/11 to 2011/12 is sensible and will provide a better indication to customers of likely charges. This data will change again for the anticipated implementation of charges from 1 April 2012 to reflect the 2012/13 Regulatory Year.

Revising charging boundary licence wording

The charging boundary rule determines whether a customer should pay Use of System charges based on the EDCM or the Common Distribution Charging Methodology for lower voltage levels (CDCM).

We propose a minor amendment to the definition of the charging boundary rule in the licence to correct an ambiguity in the definition. This amendment does not impact on the number of existing customers designated as CDCM and EDCM but rather clarifies the boundary.

⁵ All non-confidential responses have been published online at <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=599&refer=Networks/ElecDist/Policy/DistChrgs>

⁶ DNOs consulted on their proposed EDCM in June 2010. Since then the charges proposed by 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.

⁷ Line Loss Factors are used in the settlement process to account for the distribution losses incurred in transporting power across the distribution network, between the transmission/distribution boundary and the embedded customer's settlement meter. Under the Balancing and Settlement Code (BSC), the calculation of Line Loss Factors (by licensed distribution system operators) is subject to audit by Elexon.

We made a decision on 22 July 2010 to revise the distribution charging boundary rule. According to this decision, in addition to customers connected at 22 kilovolts and above, EDCM will also apply to customers metered at the high voltage side of substations with a primary voltage level of 22 kilovolts or more from the date of implementing the EDCM.

We modified the distribution licence on 25 August 2010⁸ after a statutory consultation⁹, seeking to reflect the July decision in the licence. As a result, the licence currently defines that the EDCM will, from the date of implementing the EDCM, apply to:

- customers "*connected to the licensee's Distribution System at 22 kilovolts or more*"; and
- customers "*connected directly to substation assets that form part of the licensee's Distribution System at 1 kilovolt or more and 22 kilovolts or less*".

However, there is an ambiguity in the wording of the two definitions set out above because they both cover 22 kilovolts when in principle they should apply to different circumstances without any overlapping range. Further, in this case the second definition should not cover 22 kilovolts. This is because, according to our July decision which is consistent with the industry practice¹⁰, the first definition should be that the EDCM will apply to all extra high voltages which include 22 kilovolts. The second definition should represent the circumstance whereby certain customers connected at a high voltage level will also be subject to the EDCM. High voltages exclude 22 kilovolts. On this basis, we propose to amend the range of voltage levels in the second definition to '1 kilovolt or more and less than 22 kilovolts'. This proposed amendment provides clarity and does not change the voltage levels covered by the EDCM in the existing licence. It therefore does not affect any existing customers.

Scope of modification

To implement our September decision on the EDCM submission and implementation dates:

- We propose to amend the date of submitting proposals and illustrative charges in SLCs 50A.17 and 50A.18. Whilst covered off in our derogations, we are changing the face of the licence to ensure it reflects our decisions regarding project timelines. The original requirements attached to the derogations continue to apply.
- In line with this change, we propose modifying the Regulatory Year from 2010/11 to 2011/12 in SLC50A.18 which is the basis for submitting illustrative EDCM charges.
- We propose to amend the EDCM implementation date in SLCs 50A.2, 50A.5, 50A.24, 13B.1, 13B.3 and 13B.15.
- We propose to amend the date of our corresponding decision on the EDCM proposals in SLC50A.20. This is to make it clear that our decision on the EDCM must be made no later than 31 December 2011. The licence currently says 31 December 2010.
- We propose to amend the date of incorporating the EDCM into the DCUSA in SLC22A.2(b). This is being revised to 1 April 2012 given the revised project timelines.

In relation to the distribution charging boundary rule, we propose to amend:

⁸ http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/CLM_Decision1008%20FINAL.pdf

⁹ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=577&refer=Networks/ElecDist/Policy/DistChrgs>

¹⁰ The definition of extra high voltage can be found in the CDCM statement in Schedule 16 of the Distribution Connection and Use of System Agreement at <http://www.dcusa.co.uk/Public/DCUSADocuments.aspx?s=c>.

- The definition in SLCs 50.10(b), 13A.5(b), 50A.11(c) & (d), 13B.6(c) & (d), as explained above.
- The Implementation Date in SLCs 50.10 and 13A.5, in line with the new implementation date, i.e. 1 April 2012.

We do not propose extending the deadline for DNOs to submit their 'modification arrangements' proposal as referred to in SLC50A.25 because they have already fulfilled this obligation¹¹.

Statutory Consultation

We are publishing a statutory consultation notice today alongside this decision letter, setting out the proposed licence modifications that are required to implement this decision. Electricity distribution licence holders have 28 days to decide whether or not to accept the proposed modifications. If they accept, we will seek to implement the proposed modifications in mid-December this year.

Please feel free to contact Chris Chow on 020 7901 7021 if you have any queries in relation to this decision.

Yours faithfully,



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

¹¹ See our direction of 17 December 2009 at [http://www.ofgem.gov.uk/Licensing/Work/Notices/Decisions/Documents1/Governance%20Direction%20171209%20Final%20version%20\(2\).pdf](http://www.ofgem.gov.uk/Licensing/Work/Notices/Decisions/Documents1/Governance%20Direction%20171209%20Final%20version%20(2).pdf).