



Interested Parties

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

Direct Dial: 020 7901 1861
Email: James.Veaney@ofgem.gov.uk

Date: 16 February 2011

Dear Colleague

Governance options for gas and electricity distribution connection charging methodologies

On 8 October 2010 we held a workshop to explore governance options for gas and electricity distribution connection charging methodologies (CCMs). The workshop was set up following the publication of our Code Governance Review (CGR) Final Proposals¹ which set out, amongst other things, our view that distribution connection charging methodologies for both gas and electricity should have open governance arrangements. We considered that further thought needed to be given to CCM governance arrangements in light of the issues discussed in the Final Proposals. The purpose of the workshop was to consult and seek attendees' views on whether CCM's should have open governance and to encourage parties to bring forward proposals on how open governance could be achieved.

Code Governance Review

The CGR considered whether arrangements for governing the industry codes remained fit for purpose given the wide range of changes that had occurred since the introduction of the codes and also given the scale of challenge the industry faces over the coming decade. Following the review, the decision was made to incorporate network charging methodologies² into the relevant industry codes. The aim of this was to improve both the accessibility and transparency of the change process for CCM's for users and the accountability of network owners and operators.

Incorporating CCM's into industry codes allows for:

- change proposals to be raised by parties to the industry codes (or materially affected parties as determined by the Authority) as opposed to only the network licensees in relation to their own CCM's;
- the Authority to aim to approve or reject change proposals to the CCM's under the current 25 day Key Performance Indicator rather than the existing 28 day veto process;
- there to be a requirement to maintain charging forums to discuss the development of the CCM's.

We did not include distribution CCM's within the CGR proposals. We concluded that there may be good reasons why it would not be appropriate to subsume them into the codes at that stage. For example, we noted that relevant persons i.e. all those who may require a

¹ The final proposals can be found here:
http://www.ofgem.gov.uk/Licensing/IndCodes/CGR/Documents1/CGR_Finalproposals_310310.pdf

² This did not include the distribution CCM's.

connection or have a connection may not be parties to the relevant codes. However, noting that further consideration was required to be given to the governance arrangements, we considered that gas and electricity CCMs should have open governance arrangements and that this should be progressed outside the CGR project.

8 October workshop – attendees views on open governance

Electricity CCM

Since 1 October 2010 section five of the distribution network operator's (DNO) CCMs has been common as required under the electricity distribution licence. We consider that it is necessary to develop open governance arrangements to facilitate the development of electricity CCMs.

At the workshop on 8 October 2010 attendees agreed that the electricity CCMs would benefit from open governance and the DNOs tabled five options³ that would allow it to be introduced:

1. Establishing a new Common Connection Charging Code (CCCC) covering gas and electricity connection charge methodologies.
2. The creation of a Distribution Connection Use of System Agreement (DCUSA) duplicate covering electricity connections, ie a distribution connection charging code (DCCC) with its own panel.
3. Incorporating a CCM section into DCUSA with its own sub-panel, parties and cost allocation.
4. Adding the common CCM as an annex to DCUSA using the DCUSA secretariat and no change to parties or voting arrangements.
5. The creation of a CCM standing group – managed by DNOs with input from independents (no secretariat).

Having heard DNOs' views on the options available for open governance of the electricity CCMs, there was some support for the DNO's proposed fourth option.

Governance of gas CCMs

In gas there is no licence requirement that requires the GDNs to have a common CCM, however each of the gas CCMs is similar. At the workshop on 8 October the GDNs outlined two options⁴ for the future governance of the gas CCM:

1. continue "as is" – each GDN would remain individually responsible for their CCM but ad-hoc industry working groups would be created if major changes were required;
2. the creation of an industry group dedicated to the gas CCM (either in or out of one of the industry agreements).

At the workshop the GDNs concluded that there were significant differences between the gas and electricity markets. They stated that they did not believe that introducing formalised governance for gas CCMs would aid the further development of competition or improve customer service. They argued that common governance arrangements were likely to add to industry bureaucracy for little benefit and run into difficulties with competition law. Therefore the GDN's proposed to continue with the current governance arrangements for gas CCMs. There were no objections to this position from workshop attendees.

³ The presentation in which DNOs outlined these options can be found on the Ofgem website. Governance options for gas and electricity distribution connection charging methodologies – Chris Allanson presentation <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=337&refer=Licensing/IndCodes/CGR>

⁴ The presentation in which GDNs outlined these options can be found on the Ofgem website. Governance options for gas and electricity distribution connection charging methodologies – Northern Gas Networks presentation <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=337&refer=Licensing/IndCodes/CGR>

Way Forward

Governance of electricity CCMs

Following the October workshop the DNOs developed a proposal for open governance that, similar to their option four described earlier in this letter, would add the common CCM as an annex to DCUSA and use current DCUSA voting arrangements. We broadly support this initiative and welcome the DNOs developing their proposals further. We note that the proposal is likely to require modifications to both DCUSA and the electricity distribution licence.

Governance of gas CCMs

We note the GDN's position that they will not be taking forward any proposals for open governance, and we will keep the situation under review.

Yours faithfully

James Veaney
Head of Distribution Policy