



To electricity distributors,
generators, suppliers, customers
and other interested parties

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all gas and electricity customers*

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Dear Colleague

Open letter consultation on a proposed modification to the boundary between the Common Distribution Charging Methodology (CDCM) and the EHV Distribution Charging Methodology (EDCM) as set out in the electricity distribution standard licence conditions (SLCs)

The purpose of this consultation is to set out the effect of and seek views on a proposed modification to the boundary between the CDCM and the EDCM, related to Licensed Distribution Network Operators (LDNOs). LDNOs are defined in the Distribution Connection and Use of System Agreement (DCUSA) as "an IDNO Party or DNO Party operating an electricity distribution system outside of its Distribution Services Area". The boundary between the two distribution use of system (DUoS) charging methodologies is set out in SLC 50.10; SLC 13A.5; SLC 50A.11 and SLC 13B.6 of the electricity distribution licence.¹

The definition of 'Designated EHV Properties' as set out in SLC 50A.11 and SLC 13B.6 of the electricity distribution licence, serves to identify properties or Distribution Systems² that would be subject to the EDCM for the purpose of DUoS charges. The current definition makes reference to the location of the Metering Point as defined in SLC 1 of the electricity distribution licence. In practice, LDNOs typically do not have a Metering Point at their boundary with the host Distribution Network Operator (DNO).³ Under the current licence definition LDNOs connected at primary substations (eg, 33kV/11kV substation) but not metered at that point of connection will be subject to DUoS charges calculated under the CDCM. These charges may be inaccurate as they are calculated under the assumption that the LDNO's point of connection to the host DNO's network is at the High Voltage (11kV) network rather than at the 33kV/11kV network. As a consequence the LDNO may not get the right level of DUoS charge from the host DNO.

The proposed modification aims to amend the definition to ensure that DNOs recover appropriate charges from LDNOs connected at primary substations but not metered at that point of connection.

A modification will also need to be made to revise the definition of 'Designated Properties' as set out in SLC 50.10(b) and SLC 13A.5(b) of the electricity distribution licence and which serves to identify properties or Distribution Systems that would be subject to the CDCM for the purpose of DUoS charges.

¹ The electricity distribution standard licence conditions are available at <http://epr.ofgem.gov.uk/index.php?pk=folder499235>.

² As defined in SLC 1 of the electricity distribution licence.

³ A DNO is a Distribution Service Provider as defined in SLC 1 of the electricity distribution licence.

Subject to responses to this consultation, we intend to follow up with a formal statutory consultation on a collective licence modification to implement the identified changes to the licence.

Below we describe the scope of the issue, its impact on customers and LDNOs, its implications on the submission of the EDCM proposals and how we propose to take this forward.

Scope of the issue

The DNOs have a licence requirement to submit an EDCM for approval by the Authority by not later than 1 April 2011, for implementation in 1 April 2012.

The criteria for determining whether a customer or an embedded distribution network operator falls within the scope of the EDCM is set out in SLC 50A.11 (reproduced below):

50A.11 For the purposes of this condition, Designated EHV Properties are any of the following:

- (a) Distribution Systems connected to the licensee's Distribution System at 22 kilovolts or more;*
- (b) premises connected to the licensee's Distribution System at 22 kilovolts or more;*
- (c) Distribution Systems connected directly to substation assets that form part of the licensee's Distribution System at 1 kilovolt or more and less than 22 kilovolts where the primary voltage of the substation is 22 kilovolts or more and where the Metering Point is located at the same substation; and*
- (d) premises connected directly to substation assets that form part of the licensee's Distribution System at 1 kilovolt or more and less than 22 kilovolts where the primary voltage of the substation is 22 kilovolts or more and where the Metering Point is located at the same substation.*

Condition 1 of the electricity distribution licence defines a Metering Point as:

the point, determined according to the principles and guidance given at Schedule 8 of the Master Registration Agreement, at which a supply of electricity taken into or conveyed from the licensee's Distribution System:

- (a) is or is intended to be measured; or*
- (b) where Metering Equipment has been removed, was or was intended to be measured; or*
- (c) in the case of an Unmetered Supply, is treated as measured.*

As part of their recent work on the EDCM the DNOs have identified the need to clarify the definition in respect of LDNOs. According to condition 50A.11, the definition of Designated EHV Properties depends on the location of the Metering Point. In practice, it is unlikely that a boundary between a host DNO and a LDNO would include a Metering Point as defined in the licence.

The DNOs have asked Ofgem to consider changing the licence conditions so that there is clarity in the definition of a Designated EHV Properties as far as LDNOs are concerned.

The DNOs' proposed modification

In their consultation on LDNO charging under the EDCM⁴ the DNOs proposed an alternative definition to Designated EHV Properties to be applied in the case of LDNOs. According to their proposal the following types of LDNO Distribution Systems would qualify as Designated EHV Properties:

- (a) LDNO Distribution Systems connected to the licensee's Distribution System at 22 kilovolts or more; and
- (b) LDNO Distribution Systems connected directly to substation assets that form part of the licensee's Distribution System at 1 kilovolt or more and less than 22 kilovolts where the primary voltage of the substation is 22 kilovolts or more and where the asset ownership boundary is physically located at the same substation

Responses to their consultation were all in support of this proposed definition.⁵

Interaction with other licence conditions

The electricity distribution licence defines the charging boundary between the CDCM and the EDCM in terms of Designated Properties and Designated EHV Properties: Designated Properties are subject to use of system charges calculated under the CDCM and Designated EHV Properties are subject to use of system charges calculated under the EDCM.

The proposed change to the definition of Designated EHV Properties has to be reflected in the definition of Designated Properties as set out in SLC 13A (Common Distribution Charging Methodology) and SLC 50 (Development and implementation of a Common Distribution Charging Methodology).

In particular, SLC 50.10(b) and SLC 13A.5(b) define Designated Properties as "premises or Distribution Systems connected to the licensee's Distribution System at a voltage level of less than 22 kilovolts, but excluding premises or Distribution Systems connected directly to substation assets that form part of the licensee's Distribution System at 1 kilovolt or more and less than 22 kilovolts where the primary voltage of the substation is 22 kilovolts or more and the Metering Point is located at the same substation".

The definition of Designated Properties will have to make clear that in the case of LDNOs the exclusion would be based on ownership boundary rather than the location of a Metering Point.

Impact on LDNOs

Under the EDCM, LDNOs are eligible for discounts calculated using the extended price control disaggregation model (the extended Method M model) whereas under the CDCM, LDNOs are eligible for discounts calculated using the original CDCM price control disaggregation model (the Method M model).⁶

As the licence currently stands, any LDNO with a distribution system connected to the host DNO's network at a HV substation (eg a LDNO which owns the EHV/HV substation but not the EHV feeders into the substation) but not metered at that point of connection, would not qualify as an Designated EHV Properties and will not be subject to the EDCM. The proposed

⁴ The consultation document can be found at <http://2010.energynetworks.org/edcm-file-storage/6-consultations/07-consultation-on-ldno-charging-feb-2011/>.

⁵ Responses will be published shortly at <http://energynetworks.squarespace.com/edcm-file-storage/6-consultations/>.

⁶ Method M has been approved as part of the CDCM and is described in Schedule 16 of the DCUSA. The extended method M has been consulted on in the DNOs 'Consultation on LDNO charging under the EHV Distribution Charging Methodology (EDCM)'. The consultation can be found at <http://energynetworks.squarespace.com/edcm-file-storage/6-consultations/>.

change means that such a LDNO will qualify as a Designated EHV Properties and will be subject to EDCM charges, which are likely to be lower than CDCM charges (as Method M discounts are lower than extended Method M discounts).

As part of the responses to this letter we would welcome evidence of the number of affected LDNOs.

Impact on other customers

If there are LDNOs affected by the proposed change to the definition of Designated EHV Properties, there may be some implications on charges paid by other customers as the change in definition might impact on the revenue that would be collected from LDNOs and consequently end users.

We are of the view that the change would possibly affect only few LDNOs at the moment and therefore there would not be a significant charge impact on either CDCM or EDCM customers. We ask for any evidence on the number of LDNOs affected by the boundary change, and the implication on end user charges.

Implications for the submission of the EDCM

Subject to responses to this consultation, we intend to follow up with a formal statutory consultation on a collective licence modification to implement the identified changes to the licence.

The licence is unlikely to be changed before the submission of the EDCM given the licence requirement on DNOs to submit the EDCM by 1 April 2011. This should be resolved by the time we make our decision on the methodology around July/August. We think this should not have significant implications for the submission of the EDCM. As noted above, there may be some minor implications for the indicative charges in the submission but we think that the wording of the methodology would be the same even if the licence had been changed.

Our initial view

Our initial view is that the change to the licence definition is needed. The current definition of Designated EHV Properties is based on the location of the Metering Point, as defined in the electricity distribution licence, and LDNOs typically do not have such a Metering Point. As a result a LDNO may be unduly subject CDCM charges rather than EDCM charges, and consequently may not get the right level of charges from the host DNO.

We think that the ownership boundary between a LDNO and its host DNO is an appropriate alternative for the determination of the applicable charging methodology for LDNOs. Given the small number of LDNO connection expected to be affected by the boundary change, now or in the future, we do not expect significant impact on EDCM or CDCM end users charges.

We recognise that the asset ownership boundary can be argued to be the relevant point of connection for all customers for the purpose of determining the applicable charging methodology. However, given that there is a clear delineation between the circumstances of an end user and an LDNO—end users always have a Metering Point, which in almost all cases coincides with the ownership boundary—we feel that changing the definition to accommodate the circumstances only of LDNOs is appropriate.

Our view is that a more comprehensive change to the boundary – one that would apply the asset ownership test to all customers – would require a proper impact assessment. We feel that now is not the appropriate time for such a change given the imminent submission of the EDCM proposals for our approval. We propose to explore the impact of such an option at a later date once the EDCM has been approved, however, given that we consulted on the

current definition of the boundary between the EDCM and the CDCM, and that this definition is unambiguous for non-LDNOs, we would be careful not to change this boundary unless there was strong evidence for doing that. In the meantime, we welcome respondents' views on the suitability of such a change alongside evidence of its anticipated impact.

Views invited

We would welcome respondents' views on these proposed modifications to the electricity distribution SLCs.

In particular, we would welcome respondents' views on the following questions:

- Do you agree that the proposed change to the definition of Designated EHV Properties is required?
- In the absence of a Metering Point, is the ownership boundary the most relevant point for the determination of LDNO charges?
- Is there currently any LDNO or other Distribution System that would be affected by the proposed change?
- Should the definition of Designated EHV Properties based on asset ownership apply to all Distribution Systems, as defined in SLC 1, or only LDNOs?
- Do you agree that we should hold off changing the definition of Designated EHV Properties for all customers and explore such an option following a proper impact assessment and only once the EDCM has been approved?

Responses should be sent to ynon.gablinger@ofgem.gov.uk by **26 April 2011**. If you have any queries in relation to the issues raised in this letter please contact Ynon Gablinger on 020 7901 7051.

Yours faithfully,



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