



Promoting choice and value  
for all gas and electricity customers

# **EDCM Consultation LDNO Workshop**

15 June 2011

## The EDCM objective

The objective of the EDCM is to introduce a common charging methodology across the country which is cost reflective and which accounts for key developments in the DNO networks (such as the emergence of DGs and LDNOs).

### Where are we in the process?

- 1 April 2011: The DNOs submitted their EDCM proposal to Ofgem
- 20 May 2011: Ofgem published a consultation on the EDCM proposals

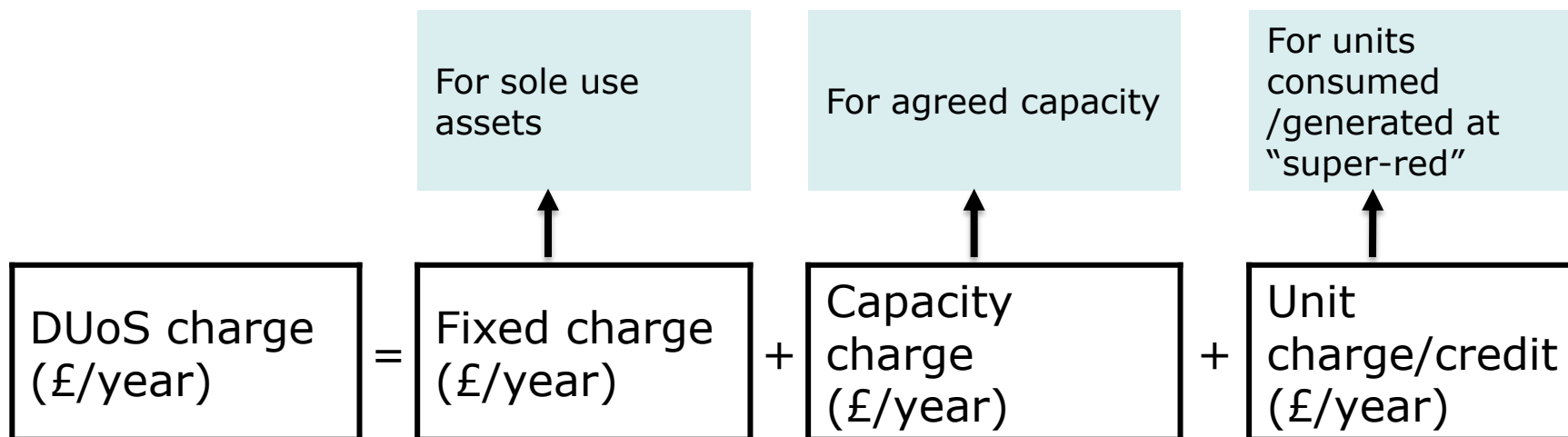
## EDCM LDNO Methodology

<b>Issues</b>	
	Issue 13: CDCM/EDCM boundary
	Issue 14: components of location specific charge paid by the LDNO
	Issue 15: number of discount tariffs (connection types) applicable to LDNOs
	Issue 16: capping discount percentages to 100 per cent

## Overview of the EDCM LDNO methodology

- Charges to EDCM LDNOs are calculated on a portfolio basis
  - LDNOs will receive a charge for use of the DNO's distribution system in respect of each end customer that is connected to its (the LDNO's) network.
  - The LDNO charge for each of its customer will depend on the customers' point of connection
- Charges for EDCM LDNO customers
  - Where the end customer also qualifies as an EDCM the LDNO charge will be calculated using a variant of the EDCM methodology for calculating EDCM demand and generation customer charges.
  - The LDNO will need to provide DNOs with boundary equivalent capacity/consumption data for each EDCM customer connected to their networks
- Charges for CDCM LDNO customers
  - Where the end customer qualifies as a CDCM customer the LDNO charge will be calculated as a discount from the equivalent customer CDCM tariff.
  - Calculation will be based on extension of CDCM LDNO discounts

## Tariff structure for LDNO for EDCM end customers



DUoS charge (£) = [Fixed charge (£)]

+ [Capacity charge rate (£/kVA)] \* [kVA agreed capacity]

+ [Super-red unit rate (£/kWh)]\*[kWh import/export at "super-red"]

# Calculation LDNO charges for EDCM customers (1)

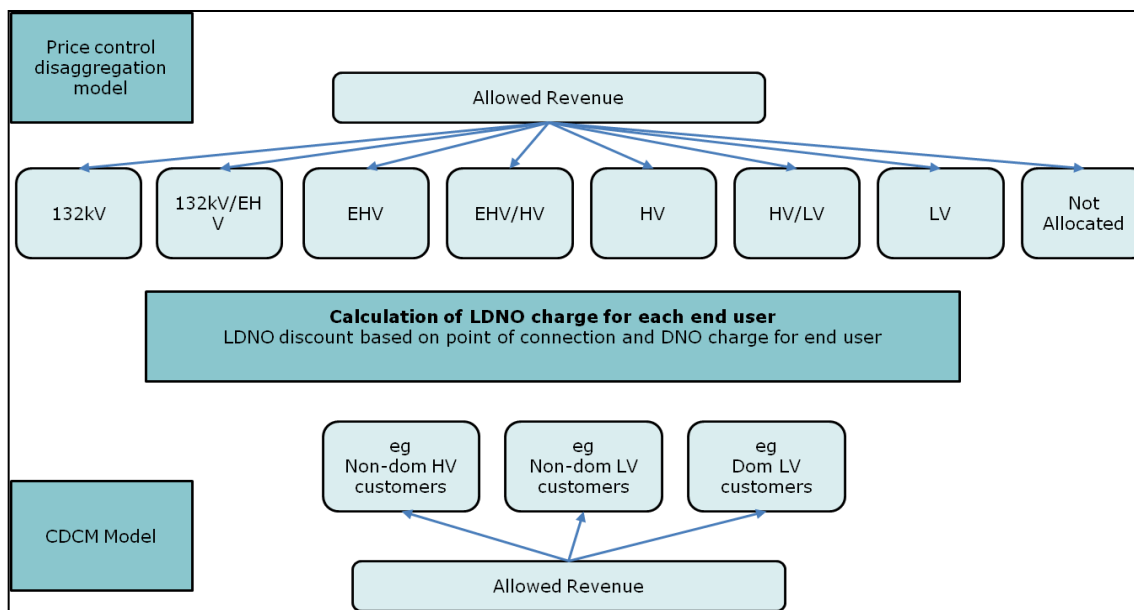
Charge component	Description	LDNO charge for EDCM Demand end users	LDNO charge for EDCM Generation end users	Element of final charge allocated to
FCP/LRIC charge	Charge based on future cost of reinforcing shared assets	LDNO pays charges only for assets provided by the DNO	LDNO pays charges only for assets provided by the DNO	Capacity/Unit
Indirect costs charge	Charge to recover a contribution to DNO indirect costs allocated to EDCM customers	Charge is a multiple of the required network capacity  LDNO receives a discount of 50% compared to the charge for end user	No indirect costs charge is applied to generation customers	Capacity
Direct costs and network rates	Charge for DNO direct costs and network rates allocated to both shared and sole use assets	LDNO pays charges only for assets provided by the DNO	These charges apply only to sole use assets attributable to the generation	Capacity

# Calculation LDNO charges for EDCM customers (2)

Charge component	Description	LDNO charge for EDCM Demand end users	LDNO charge for EDCM Generation end users	Element of final charge allocated to
Scaling charge	Adjustment to ensure that total charges equal revenue allocated to EDCM customers	20% of charge is a multiple of network capacity 80% is based on shared use assets used  LDNO pays charges only for assets provided by the DNO	Charge is a multiple of network capacity	Capacity
Exit charge	Charge related to the DNO's transmission exit charges	Charge is a multiple of the required network capacity at system peak	Not applicable	Capacity
Sole Use asset charge	Charge for direct costs and network rates allocated to sole use assets	LDNO pays charges only for proportion of sole assets provided by the DNO in respect of LDNO EDCM customers	LDNO pays charges only for proportion of sole assets provided by the DNO in respect of LDNO EDCM customers	Fixed

## Charges for LDNO CDCM customers

- LDNOs receive a charges based on a discount from CDCM end – with discount based on allocation of allowed revenue to network tiers



- LDNOs receive charge for each customer based on a discount from CDCM end customer – tariff structure replicates that for CDCM customer
- Proposal is that LDNOs receive a discount for all network levels not provided by DNOs



## **Issue 13: CDCM/EDCM boundary**

- Decision on changing definition of CDCM/EDCM boundary to be published shortly.

## **Issue 14: components of location specific charge paid by the LDNO**

- Elements of EDCM charges are allocated to end customers either on the basis of assets used or network capacity required.
- LDNOs do not pay charges relating to assets they provide and they also receive a 50% discount from the (capacity based) indirect cost element of the EDCM charge.
- This discount reflects LDNOs will also incur indirect costs in providing distribution services to customers.
- To the extent that that other costs recovered through other capacity based charges (eg scaling) will also be incurred by LDNOs should a discount also be applied to these?

## **Issue 15: number of discount tariffs (connection types) applicable to LDNOs**

- Current proposal is for LDNO discount to be for all network levels not provided by LDNO.
- The LDNO discount will therefore vary with the point of connection between the LDNO and the asset provided by the DNO upstream of the point of connection.
  - For example an LDNO connected to a 33kV circuit will receive a discount for all network levels below this. It will also receive an additional discount if the DNO provides only the 132/33kV transformation above this (i.e. it provides no 132kV circuits)
- The CDCM end customer charge does not vary with the assets provided by the DNO so should the LDNO discount?
  - The proposed method could result in identical LDNO networks receiving different discounts.

## Issue 16: capping discount percentages to 100 per cent

- A proportion of DNO end customer CDCM charges are not eligible for inclusion in the LDNO discount (not allocated revenue in the diagram on slide 9).
- Incentive revenues are part of this not allocated revenue as they are considered to be not directly related to DNO costs, however these may be positive and negative.
- In a limited set of circumstances (where and LDNO is connected close to the GSP and DNO incentive revenues are strongly negative) the extended discount method underlying the EDCM may imply LDNO discounts of greater than 100%.
- Current EDCM proposal is to cap these discounts at 100%.
- Capping at 100% could imply that in some circumstances all DNO costs are not eligible for a discount. Is this appropriate?

## Management of charge changes

- EDCM offers opportunities to manage charge
  - demand side management agreement
  - reduce consumption during super-red hours
  - reduce agreed import capacity
  - employ on-site generation (may be partially offset by GDUos)
- We expect some customers will adjust their behaviour in response
- We are considering placing requirement on DNOs to provide specific assistance to most affected customers

## Managing charges over time (Issue 21)

- Beyond one-off change, there may be ongoing volatility in charges
  - internal volatility, eg super red consumption
  - external volatility, eg allowed revenue, NUFs
- Measures to manage volatility
  - five year projections of potential variances
  - long term products
  - modification to model inputs, eg NUFs
- Role of Workstream C

*What measures would be most useful in helping you manage your charge over time?*

## Implementation of new charges – as planned

### Default option – new charges start 1 April 2012 as planned

#### *Pros*

- benefits of methodology realised asap
- significant notice charges will change

#### *Cons*

- significant impact on some customers, could affect viability
- may not give sufficient time to adjust behaviour where possible

## Implementation of new charges

### **Delay – new charges start 2013, 2014 or at RIIO-ED1 (2015)**

#### *Pros*

- 'cleaner' method than phasing
- time to mitigate/adjust to increase where possible

#### *Cons*

- EDCM benefits deferred, especially more cost reflective charges
- customers with charges reducing are disadvantaged



## Implementation of new charges - Phasing

### *Pros*

- time to mitigate/adjust to increase where possible

### *Cons*

- benefits of methodology deferred, including cost-reflectivity
- makes mods difficult
- difficulty adjusting tariffs and licence

### *Phasing for some or all?*

For all customers:

- delays benefits to those with reductions

For those with significant increases:

- targets those most affected, minimising impact on others
- but, arbitrary decision on who to phase

## Questions on implementation

### Question 2.2

- *Should we approve the methodology, do you agree with our proposal to implement it in full from 1 April 2012?*
- *If not, why is phasing-in charges or delaying implementation appropriate?*

*Are there any other implementation issues we should consider?*

## **Q&A session and feedback**

## Next steps

Consultation responses.....	4 July 2011
➤ Responses on phasing.....	24 June 2011
Ofgem's decision.....	Aug/Sep 2011
Indicative charges for 2012/13 .....	December 2011
Final charges for 2012/13 .....	February 2012
EDCM implementation (if approved) .....	1 April 2012

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The background of the slide is a composite image. On the left, there are rows of solar panels under a bright sun. On the right, a hand is shown holding a white document. In the bottom left corner, a blue gas burner is visible. The overall theme is energy and customer service.

*ofgem*

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