

Rachel Fletcher
Partner – Distribution
Ofgem

4 July 2011

Dear Rachel,

Electricity distribution charging methodologies: DNOs' proposals for the higher voltages

I am writing on behalf of the ENA's Common Methodology Group, in response to the above consultation. Individual distribution networks operators (DNOs) may also respond separately.

We are encouraged by your initial assessment that our proposals are a substantial improvement on current methodologies and that the methodology largely meets the objectives set out for the project. Having said this, we are concerned that a number of conditions may be attached to any approval.

Given the extensive and open dialog, including several consultations, that has taken place with Ofgem and other stakeholders as part of developing the methodology, we believe the DNOs' EDCM submission should be approved without conditions, unless they can realistically be met prior to implementation. Some of the changes proposed in Ofgem's consultation paper might be achieved ahead of implementation and these are listed in the appendix to this letter. As you are aware, we have started to work on these in anticipation of approval.

Other potential conditions are likely to be much harder to meet, and we are concerned that those that cannot be resolved ahead of implementation will prove burdensome to both the DNOs and stakeholders, and may put delivery of EDCM at risk. We consider that open governance following implementation is a better route for further developing the methodology and also fully engages stakeholders. We have seen a significant number of stakeholder change

proposals since implementation of the CDCM last year, and undoubtedly there will be more when the EDCM is implemented. Any longer-term conditions attached to EDCM approval will inevitably compete for resources with stakeholder initiated change proposals, and it would be much more appropriate that their importance and prioritisation is managed through open governance.

We understand that the EDCM will be implemented in the Distribution Connection and Use of System Agreement (DCUSA) via the standard change process. A Party to the Agreement will need to raise a Change Proposal (CP) to facilitate this. To comply with best governance practice the CP will need to go through robust assessment and transparent consultation processes. Given the nature of the proposal it will be categorised as a 'Part 1 Matter' meaning Authority Consent will be required and Parties will need sufficient lead time to implement the CP. The table below sets out the optimal timetable for raising, assessing, consulting, voting, determining and implementing the EDCM. In order to meet this timetable we would seek Authority approval of the methodology by early September 2011.

Activity	Target Date
CP submitted to DCUSA Panel	21 September 2011
Working Group Assessment	September – November 2011
Industry Consultation	November – December 2011
Change Report approved by DCUSA Panel	18 January 2012
Party voting	23 January – 06 February 2012
Change Declaration published by DCUSA Panel	08 February 2012
Authority Determination ¹	14 March 2012
Implementation	01 April 2012

To conclude, we are working towards a number of quick wins, and believe the methodology should be approved without conditions that cannot be met prior to implementation. We would be happy to discuss with you in more detail the reasons why we do not believe longer-term conditions are appropriate. Please let me know if you would like to do this.

Yours sincerely,



Andrew Neves

CMG Chair

¹ Based on Ofgem's 25 WD KPI

Appendix – Detailed responses to questions

Chapter 3 - Demand Issues

Issue No	Demand Issues	Question No	Question	DNO Common Methodology Group (CMG) response
1	Calculation of the revenue target from demand customers	3.1	Do you agree with our assessment that the approach for the revenue target is reasonable?	We concur with Ofgem's assessment.
2	Use of capacity at the voltage level of connection and super-red demand at higher levels as "cost drivers"	3.2	Do you think the principle the maximum import capacity is a cost driver at the voltage of connection is reasonable for charging purposes?	We concur with Ofgem's assessment.
3	Indirect costs and 20 per cent of demand scaling allocated on the basis of capacity and super-red consumption	3.3	Do you agree with our view that reactive power flows should be incorporated as part of the capacity that attracts indirect costs and 20 per cent of the residual? (para 3.55)	We are analysing the impact on tariffs of changing the methodology as suggested in paragraph 3.55 of the Ofgem consultation document. The input data required to implement this change is available within the current model in the case of FCP companies. The data is not available in LRIC models, and companies would need to compile this data. We will provide feedback to Ofgem once this analysis is complete.
4	Direct costs, network rates and 80 per cent of demand scaling allocated on the basis of site-specific notional assets	N/A		We concur with Ofgem's assessment.
5	Calculation of network use factors	3.4,3.5,3.6	3.4 Is it appropriate to consider the specific assets the customer uses for the calculation of the customer's charge, or would it be more appropriate to consider only the voltage levels the customer uses for the calculation of its	We are currently considering possible ways to address Ofgem's concerns. Workstream A of the CMG has been reconvened and will look into this issue. We will provide feedback to Ofgem once their analysis is complete.

Issue No	Demand Issues	Question No	Question	DNO Common Methodology Group (CMG) response
			<p>charges?</p> <p>3.5 Do you think that the 'spare capacity' issue we identify should be addressed?</p> <p>3.6 Do you think notional asset values should take into account assets below the customer's voltage of connection?</p>	
6	The 80-20 split of residual revenue to be allocated using different drivers	N/A		We concur with Ofgem's assessment.
7	The use of 15 demand customer categories	N/A		<p>Paragraph 3.109 raises the concern that the network use factors (NUFs) do not always correspond to the customer category in the models submitted to Ofgem. We are currently looking into this issue. Where this inconsistency is due to a model population error, this will be corrected.</p> <p>In the models submitted to Ofgem on 1 April 2011, where non-zero NUFs are found in network levels that are not used according to the customer category, these NUFs are ignored for the purpose of calculating site-specific notional assets. Many of these cases relate to network levels that are below the level of connection (i.e. at a lower voltage level). Paragraph 1.110 asks whether these NUFs should be ignored.</p> <p>We are considering the option of taking these NUFs into account in calculating site-specific notional assets. The impact on tariffs is being looked at and the DNOs will provide feedback to Ofgem when this analysis is complete.</p>
	General Demand Question	3.7	Are there any other demand specific issues that you think we should consider as part of our decision?	No, we do not think there are other demand-specific issues.

Chapter 4 - Generation Issues

Issue No	Generation Issues	Question No	Question	DNO Common Methodology Group (CMG) response
8	Calculation of the revenue target from generators	4.1	Do you agree with our proposal to modify the generation revenue target in order to avoid double charging for operations and maintenance costs on sole use assets? This issue aside, do you agree with our view that the approach to calculating a generation revenue target is reasonable?	We agree in principle with the point raised by Ofgem in paragraphs 4.24 to 4.26. We are currently looking at the impact of the proposed change on tariffs. We will provide feedback to Ofgem when this analysis is complete.
9	The generation scaling methodology	4.2	Do you agree with our assessment that the approach to scaling is reasonable?	We concur with Ofgem's assessment.
10	Generation credits only applied to units exported during the super-red time band	4.3	Do you think it is appropriate for only units exported by non-intermittent generators during the super-red time band to be eligible for credits?	We concur with Ofgem's assessment.
11	No FCP/LRIC credits to intermittent generation	4.4	Do you agree with our proposal that intermittent DG should be eligible for credits as they are deemed to provide network benefits under ER P2/6? If they do become eligible for credits, should the credits only relate to units exported during the super-red time band or is a single credit rate to all units exported more appropriate?	<p>Paragraphs 4.61 to 4.70 of the document argues that intermittent generation should be eligible for some credits based on LRIC or FCP charges. The DNOs are considering this issue.</p> <p>The reasoning behind our original proposal to not pay any credits to intermittent generation was that output from these generators would not be taken into account for network planning purposes, in accordance with ER P2/6 guidance (for "other outage" conditions, i.e. unplanned outages or outages as part of a major project). We have reviewed our proposals following the publication of the Ofgem consultation, and we have reached the conclusion that our reasoning remains valid.</p> <p>It is possible that in the future, as more intermittent generation connects to the distribution networks, the guidance on security of supply (ER P2/6) might evolve and change. For example, a large geographically dispersed wind farm may, due to diversity, provide some support to the</p>

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				<p>network under “other outage” conditions.</p> <p>It may be argued that a forward-looking methodology may take this diversity into account and include appropriate credits to intermittent generation. If so, an appropriate forward-looking “diversity factor” needs to be determined. Under the circumstances, this diversity factor would be a very rough estimate.</p> <p>We seek Ofgem’s view on whether paying credits (appropriately adjusted for diversity) to intermittent generation would be deemed cost-reflective. We also welcome Ofgem’s suggestions on how this diversity factor may be calculated.</p>
12	Import charges for generation-dominated mixed import-export sites	4.5	<p>On import charges for generation dominated mixed import-export:</p> <ul style="list-style-type: none"> • Do you agree with our suggested alternative to using the collar of the network use factor for the calculation of the import tariff? • Do you think that the methodology is appropriate for demand customers connected to generation dominated assets? 	<p>We are currently considering possible ways to address Ofgem’s concerns. Workstream A of the CMG has been reconvened and will look into this issue. We will provide feedback to Ofgem once their analysis is complete.</p>
	General Generation Question	4.6	<p>Are there any other generation specific issues that you think we should consider as part of our decision?</p>	<p>No, we do not think there are other generation-specific issues.</p>

Chapter 5 - IDNO Issues

Issue No	IDNO Issues	Question No	Question	DNO Common Methodology Group (CMG) response
13	The CDCM/EDCM boundary as applied to LDNO distribution systems	N/A		No response necessary.
14	Charges for EDCM-like end users	5.1 & 5.2	<p>Do you agree when calculating LDNO charges that DNO costs upstream and downstream of the point of connection should be considered?</p> <p>Do you think that DNOs should provide LDNOs with a discount on all non-asset based charges?</p>	We agree in principle with the point raised by Ofgem in paragraphs 5.14 to 5.18. We are currently looking at the impact of the proposed change on tariffs. We will provide feedback to Ofgem when this analysis is complete.
15	Number of boundary categories for CDCM portfolio tariffs	5.3	Do you think that varying LDNO discounts only with the point of connection will better achieve a balance between reflecting upstream and downstream costs?	<p>Paragraphs 5.19 to 5.22 of the document argue that LDNO discounts should only vary with the point of connection of the LDNO, and should not take into account the network levels used by the host DNO up to the point of connection (upstream network levels).</p> <p>We believe that the level of granularity in our proposed method is more cost-reflective than the alternative proposed by Ofgem in paragraph 5.22.</p> <p>For example, consider an EHV boundary LDNO with CDCM demand end users. In the first case, the DNO supplies this connection through 132kV circuits, a 132kV/EHV transformation and EHV circuits. In the second case, the connection is supplied through a 275kV/EHV direct transformation.</p> <p>Our proposals would result in a higher LDNO discount in the second case. We think that this is entirely appropriate and cost-reflective.</p> <p>We recognise the point in paragraph 5.21 about the increase in LLFCs as a result of this proposal.</p>

Issue No	IDNO Issues	Question No	Question	DNO Common Methodology Group (CMG) response
				We seek further clarification from Ofgem on this issue.
16	Capping of LDNO discounts on CDCM tariffs to 100 per cent	5.4	Do you agree that it may be appropriate in some circumstances for the DNO to pay LDNOs use of system credits?	We concur with Ofgem's assessment.

Chapter 6 - Common Issues

Issue No	Common Issues	Question No	Question	DNO Common Methodology Group (CMG) response
17	Sole use asset charges	6.1	Do you think sole use assets should attract scaling 'costs' to the same extent as shared assets? Does the charging rate on sole use assets seem reasonable given the nature of these assets?	We have reviewed this issue following the publication of Ofgem's consultation and our position remains unchanged.
18	DSM/GSM proposals	6.2	Do you agree with our view that the arrangements for demand and generation side management agreements are appropriate? Do you think such agreements should be available to all customers?	The ENA COG Capacity Management group are looking at this issue.
19	Excess reactive power charges	6.3	Do you agree with our assessment that an explicit reactive power charge is not appropriate?	We concur with Ofgem's assessment.
20	Sense checking of branch incremental costs in LRIC	6.4	On the proposal for sense checking branch incremental costs in LRIC: <ul style="list-style-type: none"> • Do you agree with our view that positive cost recovery (i.e. charges) and negative cost recovery (i.e. credits) should be considered separately? • Do you consider that recovery from demand customers and recovery from generation customers should be considered separately? 	We are currently considering possible ways to address Ofgem's concerns. Workstream A of the CMG has been reconvened and will look into this issue. We will provide feedback to Ofgem once their analysis is complete.
21	Volatility	6.4 but think it should be 6.5	Do you think the EDCM should include a mechanism to mitigate the potential volatility from network use factors? We welcome views on measures to mitigate volatility and help customers manage volatility?	In principle, we support measures to address excessive volatility in charges to customers. However we seek further guidance from Ofgem on how an appropriate balance between cost-reflectivity and the mitigation of volatility may be achieved.
	Comment on Excel model	N/A		We agree with Ofgem's assessment of the Excel spreadsheet. We will carry out further work on improving the presentation and transparency of the Excel model. We expect to do this once the final modifications to the methodology have been agreed.

