



Interested parties

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Date: 3 February 2012

Dear Stakeholder

Consultation on proposed licence changes to facilitate open governance of the Common Connection Charging Methodology

The purpose of this letter is to issue a consultation on the drafting of our proposed changes to the Electricity Distribution Licence (the Licence) to facilitate open governance of the common section of the Distribution Network Operators' (DNOs) Connection Charging Methodologies (the Common Connection Charging Methodology (CCCM)). This would allow third parties to propose changes to key parts of charging methodologies.

If you wish to respond to this consultation please do so by **30 March 2012**. Responses should be marked for the attention of Rebecca Langford and sent to connections@ofgem.gov.uk. Unless responses are marked confidential they may be posted on the Ofgem website.

Background

DNOs are required by Standard Licence Condition (SLC) 13 of the Licence to have in force at all times a Connection Charging Methodology that has been approved by the Authority on the basis that it achieves Relevant Objectives.¹ They are also required by SLC 14 to prepare, and make available in a form approved by the Authority, a Connection Charging Statement. SLC 13.13 requires DNOs to publish their Methodology and their Statement in a combined document.

In practice, each DNO publishes its Connection Charging Methodology and Connection Charging Statement in a wider connection charging document, which they make available on their website. This document also contains information that does not fall under the Licence definition of either Methodology or Statement but is useful to customers seeking to connect to the DNO's network (for example, their application process).

Since 1 October 2010, the DNOs' Connection Charging Methodologies have comprised a section common to all DNOs, (the 'Common Methodology' or CCCM) and a section specific to each DNO (the 'Company Specific Methodology'). These form sections five and six of each DNO's connection charging document, respectively. Since 1 October 2010, the Connection Charging Statement has also been common to all DNOs. This forms section seven of each DNO's connection charging document.

¹ These Relevant Objectives are set out at SLC 13 of the Licence which is reproduced at Appendix two of this document.

In February 2011, we published a letter stating that we considered that the CCCM should be subject to open governance arrangements to:

- ensure that it remains common;
- allow 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; and
- ensure that there is a requirement to maintain a charging forum to discuss the development of the CCCM.²

The February 2011 letter explained that the DNOs had developed a proposal for open governance that would incorporate the CCCM into the Distribution Connection and Use of System Agreement (DCUSA) (as a schedule) and use the DCUSA governance arrangements to allow modifications to the CCCM to be proposed, assessed and voted on.

Following this consultation the DNOs intend to submit a DCUSA change proposal to include the CCCM as a schedule to DCUSA.³

Proposed amendments to the Licence

Changes to the current drafting of the Licence are not required to allow the CCCM to be included as a schedule to the DCUSA. However, we consider that changes to SLCs 13, 22 and 22A are necessary to ensure the CCCM remains common amongst DNOs and to facilitate ongoing governance through the DCUSA. In particular, we propose that the Licence is amended to -

- **Ensure that the CCCM is enduring and remains common** – by making inclusion of the CCCM in DNOs' Connection Charging Methodologies a requirement of the Licence.
- **Avoid duplication in the modifications process for the CCCM** as the Licence currently stands (when the CCCM is incorporated into the DCUSA), two change proposals would need to be submitted to the Authority:
 - firstly, under SLC 22 - a recommendation to the Authority to approve or reject a proposed change to the CCCM in the DCUSA; and
 - secondly, a modification report under SLC 13 - setting out any subsequent change to be made to the DNOs' Connection Charging Methodologies to reflect the change made to the CCCM in the DCUSA.
- **Ensure that decisions to approve or reject modifications to the CCCM are taken in accordance with the Applicable Charging Methodology objectives - rather than the more general Applicable DCUSA Objectives set out in SLC 22.2(a)-(e).**

SLC 13 requires Licensees to have in force charging methodologies approved by the Authority. SLC 13 also requires the Authority to approve modifications to charging methodologies having considered whether they better achieve the five Relevant Objectives.⁴ SLC 22 requires DNOs to ensure that the DCUSA is designed to facilitate the achievement of five Applicable DCUSA Objectives.⁵ Part B of SLC 22A replicates the objectives set out at SLC 13.3 for the purposes of approving modifications to Charging Methodologies included in the DCUSA.⁶

² <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=374&refer=Licensing/IndCodes/CGR>

³ Note that a previous change proposal submitted (DCP 112) has been withdrawn with the intention that it will be resubmitted following this consultation.

⁴ The Relevant Objectives are set out at SLC 13.3 at page 3 of Appendix 2 of this letter (available on our website as an associated document to this letter).

⁵ The Applicable DCUSA objectives are set out at SLC 22.2 at page 4 of Appendix 2 of this letter (available on our website as an associated document to this letter).

⁶ SLC 22A is set out at page 10 of Appendix 2 of this letter (available on our website as an associated document to this letter).

We consider that the Applicable Charging Methodology Objectives (set out in Part B of SLC 22A) are more relevant to modifications to the CCCM than the Applicable DCUSA Objectives as they consider, amongst other things, whether *'compliance with the methodology results in charges which reflect, as far as is reasonably practicable (taking account of implementation costs) the costs incurred by the licensee in its Distribution Business'*. Furthermore, this approach will ensure consistency in that decisions to veto/not veto modifications to DNOs' individual Connection Charging Methodologies (under SLC 13) and decisions to accept/reject modifications to the CCCM (under SLC 22A) will be made in consideration of the same objectives.

We also propose some minor housekeeping changes to the paragraph numbering in SLCs 13, 15 and 22A.

Further detail on the proposed Licence amendments can be found at Appendix 1 to this document. Our proposed Licence drafting can be found Appendix 2 (available on our website as an associated document to this letter).

The Common Connection Charging Statement (CCCS)

It should be noted that the changes we are proposing to the Licence relate only to the CCCM and not the CCCS.

There is a degree of overlap in what the Licence requires be included in DNOs' Connection Charging Methodologies and Connection Charging Statements. Although in principle sections of the connection charging document setting out methods and principles for determining connection charges can be considered to be part of both the Connection Charging Methodology and the Connection Charging Statement, to avoid repetition in the connection charging document the methods and principles used to determine connection charges are only covered once, in the Connection Charging Methodology. The Connection Charging Statement section of the document simply presents a list of items of significant cost. It should be noted that although the Authority approves changes to the DNOs' Connection Charging Methodologies, having considered whether they better meet Relevant Objectives set out in the Licence, it approves only the form of DNOs' Connection Charging Statements.

We do not currently consider that it is appropriate to introduce open governance of the form of CCCS for the following reasons.

One of the main objectives of introducing open governance to the CCCM is to ensure that it remains common. SLC 14.14 of the Licence already requires DNOs to present items of significant cost in their Connection Charging Statements in accordance with a template common to all Licensees. We consider that this provides sufficient reassurance that the CCCS will remain common without it being incorporated as a schedule to DCUSA.

There is currently no formal process set out in the Licence that the Authority must follow before approving the form of a Charging Statement. If the CCCS were included as a schedule to the DCUSA, it would become subject to the DCUSA modifications process as set out at SLC 22. This would allow eligible third parties to propose changes to the form of the list of items of significant cost set out in the CCCS. The proposed changes would then be formally assessed against the Applicable Charging Objectives set out at SLC 22A. This would involve a significantly more complex (and lengthy) process than that which is currently followed. Further, it is not clear whether it would be appropriate to assess changes to the form of the CCCS against the Applicable Charging Objectives as to date, this has not been the purpose of those objectives. Because of this, we do not currently see that introducing open governance to the CCCS would be of benefit to customers.

Views invited

We seek the views of interested parties on these proposed changes to the Licence. In particular we seek views on whether:

- changes to the Licence are required to address the issues set out above and at Appendix 1
- there are any other issues associated with open governance of the CCCM that require further changes to be made to the Licence
- respondents have any views on the proposed Licence drafting set out at Appendix 2⁷ including whether alternative drafting for these conditions is more appropriate; and
- our process and timetable for taking forward the Licence changes.

We also ask whether, given the views on the governance of the CCCS set out above, we should restrict the Licence amendments to the open governance of the CCCM and not introduce open governance to the form of the CCCS at this time.

Next Steps

If you wish to respond to this consultation, please do so by **30 March 2012**. We will consider responses received and issue a statutory consultation with a view to implementing the changes to the Licence from 1 August 2012.

Yours faithfully



Andrew Burgess
Associate Partner, Transmission and Distribution Policy

⁷ Appendix 2 is available on our website as an associated document to this letter.

Appendix 1 – Overview of the proposed Licence changes

Our proposed drafting is set out at Appendix 2 (available on our website as an associated document to this letter). This table seeks to summarise and explain the changes.

Standard Licence Condition	Purpose of the current condition	Overview of proposed change
SLC 13.1(b)	Requires the Licensee to have in force a Connection Charging Methodology.	To require the Licensee, where that Licensee is a Distribution Services Provider (i.e. a DNO rather than an IDNO), to include the CCCM, as set out in DCUSA, in its Connection Charging Methodology.
SLC 13.2(c)	New sub-paragraph.	To require the Licensee, where that Licensee is a DNO, to include modifications made to the CCCM in its Connection Charging Methodology.
SLC 13.4	Sets out the procedure that a Licensee must follow before making a modification to its Charging Methodology.	To exclude modifications related to the CCCM from the procedure for modifications and the approvals process set out in SLC 13.
SLC 13.5	New paragraph.	This is proposed to avoid duplication in the modification process as the Authority will have already approved changes to the CCCM under the process set out in SLC 22 and 22A.
SLC 13.11	New paragraph.	
Throughout SLC 13	Changes to paragraph numbering and references to reflect new paragraphs and sub-paragraphs.	
SLC 15.16 ⁸	Contains a definition of Quotation	Update reference to paragraph 13 of standard condition 13 to reference paragraph 15 of standard condition 13.
SLC 22.2(f)	States that in relation to charging methodologies, the objectives set out in Part B of SLC 22A, rather than the DCUSA objectives set out in SLC22.2(a)-(e), apply.	Housekeeping – to reference ‘Applicable Charging Methodology Objectives’ rather than the ‘Relevant Objectives’. To include the CCCM in the condition.
SLC 22A.2	States that the first purpose of the condition is to ensure that the listed Charging Methodologies are incorporated into the DCUSA.	To include the CCCM in the condition. Sets the incorporation date as 1 August 2012 unless otherwise advised by the Authority.
SLC 22A.3	States that the second purpose of the condition is to: <ul style="list-style-type: none"> restrict charging methodology modifications in their purpose and effect in the period of time up to 1 April 2015; and provide that charging methodology modifications will be made by reference to the Applicable Charging 	To exclude the CCCM from the April 2015 restriction.

⁸ Since this is a minor amendment to update a paragraph reference the revised condition is not included at Appendix Two of this letter.

	Methodology Objectives rather than the Applicable DCUSA Objectives.	
SLC 22A.4	States that a Relevant Charging Methodology is a charging methodology (whether the CDCM or EDCM) that has been incorporated into the DCUSA.	To include the CCCM in the definition of Relevant Charging Methodology.
SLC 22A.10	The fifth Applicable Charging Methodology Objective.	Housekeeping to correct the condition: <ul style="list-style-type: none"> to replace Relevant Objective with Applicable Charging Methodology Objective; and to replace CDCM with Relevant Charging Methodology so that it includes the EDCM and the CCCM.
SLC 22A.15	States that the arrangements for which the DCUSA makes provision under SLC22 apply equally to the Relevant Charging Methodologies.	Housekeeping to correct the condition: <ul style="list-style-type: none"> to refer to paragraph 22A.16 rather than 22A.15.
SLC 22A.16(b)	States that the Authority is able at any time before 1 April 2015 to veto any modification proposal that appears to have as its purpose or effect the full or substantial substitution of one Relevant Charging Methodology for another.	To amend this sub-paragraph so that it will only apply to the CDCM and the EDCM after the CCCM has been included in the condition.
SLC 22A.16 -22A.18	SLC 22A.16 - Condition stating 'Every modification proposal raised under...'	Housekeeping correcting the numbering of the conditions to remove duplication of condition 22A.16. SLC 22A.16 becomes SLC 22A.17 SLC 22A.17 becomes SLC 22A.18 SLC 22A.18 becomes SLC 22A.19