



Distribution Network Operators
and other interested parties

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

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Dear stakeholder

Making changes to the electricity distribution Common Connection Charging Methodology: statutory consultation of proposed modifications to the Electricity Distribution Licence to facilitate open governance

On 3 February 2012, we consulted on how the Electricity Distribution Licence (the Licence) might be modified to allow third parties to propose changes to the Common Connection Charging Methodology (CCCM).¹ After considering the responses we received to that consultation, we are now conducting a statutory consultation on these changes.

Annex one provides a summary of the changes we propose to the Licence. A notice under section 11A(2) of the Electricity Act 1989 can be found on our website as an associated document to this letter. The notice sets out all the proposed changes to the Licence. In line with the standard process for modifying licences, interested parties have 28 days to make any representations on the proposed changes.

Please provide responses in writing by 11 June 2012, preferably by e-mail to connections@ofgem.gov.uk or alternatively by post to Rebecca Langford at Ofgem, 9 Millbank, London, SW1P 3GE.

Subject to any written representations made and our final decision on the proposed changes to the Licence, the modifications will come into effect 56 days after the publication of our decision. We expect DNOs to work to ensure that the CCCM is incorporated into the Distribution Connection and Use of System Agreement (DCUSA)² by the incorporation date set out in the revised Standard Licence Condition (SLC) 22A.2 (1 October 2012).

Background

DNOs are required by SLC 13 to have in force at all times a Connection Charging Methodology that has been approved by us on the basis that it achieves Relevant Objectives set out in the Licence.³ DNOs are also required by SLC 14 to prepare, and make available in a form approved by us, a Connection Charging Statement. SLC 13.13 requires DNOs to publish their Charging Methodology and their Charging 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 which does not form part of the Connection Charging Methodology or Connection Charging Statement as defined

¹ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=775&refer=Networks/ElecDist/Policy/DistChrgMods>

² A copy of the DCUSA can be found at: <http://www.dcusa.co.uk/Public/DCUSADocuments.aspx?s=c>

³ These Relevant Objectives are set out at SLC 13 of the Licence and are reproduced in the Notice accompanying this letter.

under the Licence 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.

In February 2011, we published a letter stating that we considered that the CCCM should be subject to open governance arrangements, ie that third parties should be able to propose changes to the CCCM.⁴ The letter also explained that the DNOs had developed a proposal for open governance that would incorporate the CCCM into the DCUSA (as a schedule) and use the DCUSA governance arrangements to allow modifications to the CCCM to be proposed, assessed and voted on.⁵

Our February 2012 consultation proposed changes to the Licence to facilitate the ongoing governance of the CCCM. We considered that changes to the Licence were required to achieve the following -

- **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.
- **To 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 us:
 - 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.
- **To 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).**

Currently SLC 13 requires us to decide whether to approve modifications to the Connection Charging Methodologies, after considering whether they better achieve five Relevant Objectives.⁶ Once the CCCM is incorporated into the DCUSA it will be subject to the DCUSA governance arrangements set out in SLC 22 and SLC 22A of the Licence rather than the procedure for modification set out in SLC 13.

The Applicable Charging Methodology Objectives at Part B of SLC 22A replicate the Relevant Objectives set out at SLC 13 for the purposes of approving modifications to Charging Methodologies included in the DCUSA.⁷ It is important to ensure consistency in the objectives used to approve or reject modifications to the CCCM and those used to approve or reject modifications to DNOs' individual Connection Charging Methodologies. We are therefore seeking to ensure that any modifications to the CCCM are approved or rejected by reference to the Applicable Charging Methodology Objectives set out in Part

⁴ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=374&refer=Licensing/IndCodes/CGR>

⁵ We understand that DNOs intend to submit a DCUSA change proposal to include the CCCM as a schedule to DCUSA once we have issued a decision on changes to the licence.

⁶ The Relevant Objectives are set out at SLC 13.3 which is reproduced in the Notice accompanying this letter.).

⁷ SLC 22A is reproduced in the Notice accompanying this letter.

B of SLC 22A rather than the more general Applicable DCUSA Objectives set out in SLC 22(2)(a)-(e).⁸

Responses to our February 2012 consultation and our views

All six DNO groups responded to our February 2012 consultation. We did not receive responses from any other interested parties. Copies of responses are available on our website.⁹

Our February 2012 consultation sought the views of interested parties as to whether changes were required to the Licence to facilitate open governance of the CCCM. All respondents agreed that changes to the Licence were required.

We also sought views as to whether, at this time, open governance should be restricted to the CCCM, rather than extended to also include the governance of the form of the Common Connection Charging Statement (CCCS).¹⁰ All interested parties who responded to this question considered that, at this time, the form of the CCCS should not be subject to open governance.

Finally, our February 2012 consultation sought views on our proposed changes to the Licence and the timetable for achieving open governance. We discuss the issues raised in response to these questions and our proposed way forward below.

Should Independent Distribution Network Operators (IDNOs) and DNOs operating outside of their Distribution Services Area be required to apply the CCCM?

Our February 2012 consultation proposed changes to the Licence that would require licensees to include the CCCM (as set out in the DCUSA) in their Connection Charging Methodologies if they are a Distribution Services Provider.

Two responses to our consultation suggested that the meaning of Distribution Services Provider was not clear. In particular, the respondents appeared unsure as to whether our proposed changes to the Licence would require DNOs to apply the CCCM where they were providing connections to networks that they may own and operate outside their Distribution Services Area (DSA).

In our view, the use of the term Distribution Services Provider means that the proposed change would only require DNOs (and not Independent Distribution Network Operators (IDNOs)) to include the CCCM in their Connection Charging Methodologies.¹¹ DNOs are required to charge in line with their Connection Charging Methodologies whether they are providing a connection to a network that they own and operate inside of their DSA or outside of their DSA. This requirement is not affected by the proposed changes to the Licence.¹²

SSE plc (SSE) considered that the proposed changes to the Licence favoured IDNOs and that, should the Licence be amended, all DNOs and IDNOs should be required to apply the CCCM. They considered that this would create a level playing field and facilitate fairer competition in connections. Electricity North West Limited (ENWL) suggested that the

⁸ The Applicable DCUSA objectives are set out at SLC 22.2 which is reproduced in the Notice accompanying this letter.

⁹ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=775&refer=Networks/ElecDist/Policy/DistChrgMods>

¹⁰ Details of our reasons for proposing that open governance should be restricted to the CCCM can be found in our February 2012 consultation:

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=775&refer=Networks/ElecDist/Policy/DistChrgMods>

¹¹ Distribution Services Provider is defined at SLC 1.3 of the licence. It means any Electricity Distributor in whose licence the requirements of Section B of the standard conditions of that licence have effect (whether in whole or in part).

¹² SLC 13.1 requires DNOs, except with the consent of the Authority, to comply with their Connection Charging Methodology.

proposed changes to the Licence could be amended so that DNOs were only required to apply the CCCM if they were operating within their own DSA.

Our view

The possibility of the CCCM being adopted by IDNOs was not considered during its development. Whilst we note SSE's view that requiring IDNOs to adopt the CCCM might facilitate fairer competition in connections, we also note that there may be good reason for IDNOs' methodologies to differ from those of DNOs. These issues would need to be explored with all relevant stakeholders before we would require any IDNO to apply the CCCM.

Delaying our proposed changes to the Licence to consider whether we should also require IDNOs to apply the CCCM would in turn, delay customers benefiting from open governance of the CCCM. We note that all of the DNOs currently include the CCCM in their Connection Charging Methodologies on a voluntary basis and we have seen no evidence that this has had any adverse effects on competition. Because of this, we have no immediate plans to require IDNOs to apply the CCCM. We therefore consider it appropriate to proceed with amending the Licence to require only DNOs to include the CCCM in their Connection Charging Methodologies.

We note that ENWL has suggested changes to our proposed drafting of SLC 13 that they consider would avoid DNOs being required to apply the CCCM where they are providing a connection to a network that they own and operate outside of their DSA (ie where they are effectively operating as an IDNO). We do not intend to adopt ENWL's alternate drafting of SLC 13 because DNOs may already propose modifications to the individual sections of their Connection Charging Methodologies setting out alternative charging arrangements for 'outside of DSA' work. If they do so, we will consider any such modification proposals against the Relevant Objectives set out at SLC 13.3 of the Licence.

The process and timetable for modifying the Licence

Three DNOs noted that the changes proposed to SLC 22A.2 of the Licence would require the CCCM to be incorporated into DCUSA by 1 August 2012 (unless otherwise advised by the Authority). UK Power Networks (Operations) Limited, on behalf of Eastern Power Networks plc, London Power Networks plc, South Eastern Power Networks plc, and UK Power Networks (IDNO) Limited, stated that DNOs must be allowed sufficient time, following our decision on the changes to the Licence proposed by this statutory consultation, to follow the DCUSA modification process to incorporate the CCCM into the DCUSA.

Our view

Depending on responses to this consultation, we expect to issue our decision on changes to the Licence in June 2012. We estimate that DNOs will require approximately three months to progress the inclusion of the CCCM in the DCUSA through the DCUSA change control process.¹³ Therefore, to ensure that DNOs are given sufficient time to follow the DCUSA modification process, we have decided to defer our proposed 1 August 2012 incorporation date to 1 October 2012.¹⁴

Housekeeping changes proposed by respondents

Northern Powergrid Holdings Company, parent company of Northern Powergrid (Northeast) Limited and Northern Powergrid (Yorkshire) plc, noted that some of the conditions of the

¹³ The DCUSA change control process is set out in the DCUSA document available at: <http://www.dcusa.co.uk/Public/DCUSADocuments.aspx?s=c>

¹⁴ Note that this does not preclude the Authority from advising of a later incorporation date if necessary due to unforeseen circumstances.

Licence, including SLC 13, had been amended since we published our February 2012 consultation.¹⁵ They also suggested some housekeeping changes and drafting points, details of which can be found in their response to our consultation.¹⁶

Our view

We can confirm that the attached statutory notice reflects the Licence in effect on 14 May 2012 and that we have rectified the drafting errors identified in our proposed changes to the Licence. We do not however consider that this statutory consultation is the appropriate vehicle to consider housekeeping changes unrelated to the open governance of the CCCM.

A table summarising the changes we propose to the Licence can be found at Annex one of this letter.

Next steps

Subject to consideration of any representations to the notice of proposed modification published as an associated document to this letter, and having regard to our principal objectives and statutory duties, we propose to modify the Licence as per the accompanying notice.

As set out above, in line with the standard process for modifying licences, interested parties have a period of 28 days to make any representations on the proposed changes. Please provide responses by 11 June 2012, preferably by e-mail to connections@ofgem.gov.uk or alternatively by post to Rebecca Langford at Ofgem, 9 Millbank, London, SW1P 3GE. After the consultation closes, we will consider any representations made and publish our final decision. Relevant parties will have 20 working days from the date of the publication of the final decision to make an application to the Competition Commission for permission to bring an appeal against these licence condition modifications.

Subject to an appeal to the Competition Commission, the changes to the Licence will come into effect 56 days after the publication of our decision.

Yours faithfully



Andrew Burgess
Associate Partner, Transmission and Distribution Policy

¹⁵ These changes took effect on 1 April 2012, details can be found on the Electronic Public Register:

<http://epr.ofgem.gov.uk/Pages/EPRSearch.aspx>

¹⁶ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=775&refer=Networks/ElecDist/Policy/DistChrgMods>

Annex one - Overview of the proposed changes to the Licence

This table seeks to summarise and explain the changes we propose to the Licence.

A statutory notice issued under section 11A(2) of the Electricity Act 1989 setting out the changes proposed to the Licence can be found on our website as an associated document to this letter.

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 ¹⁷	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 October 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; andprovide that charging	To exclude the CCCM from the April 2015 restriction.

¹⁷ Since this is a minor amendment to update a paragraph reference the revised condition is not included at Appendix Two of this letter.

	methodology modifications will be made by reference to the Applicable Charging 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 to replace facilities with facilitates.
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
SLC 22A.18	Sets out who may raise proposals to modify a Relevant Charging Methodology.	Housekeeping to correct the condition <ul style="list-style-type: none"> to replace Proposal with Proposals