To generators, distribution and transmission network operators, suppliers, electricity customers, and other interested parties

Promoting choice and value for all gas and electricity customers

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Electricity distribution charging: consultation on a derogation under SLC 13A.14 to relieve Southern Electric Power Distribution plc of its obligation to charge a customer under the CDCM; and seeking views on treatment of certain types of CDCM customers

The Distribution Network Operators[1] (DNOs) have developed common, GB-wide charging methodologies. These seek to provide cost-reflective distribution use-of-system (DUoS) charges for customers across GB. This approach encourages efficient use of network assets, hence limiting the costs to consumers of reinforcements. It also facilitates competition in the generation and supply markets, and also between DNOs and independent network companies.

The Common Distribution Charging Methodology (CDCM) applies to all low voltage (LV) customers, and most high voltage (HV) customers. It was implemented on 1 April 2010 for demand customers (import) and generation customers (export). The Extra-high voltage Distribution Charging Methodology (EDCM) has been developed to cover extra-high voltage (EHV) customers and some HV customers. It was implemented on 1 April 2012 for demand customers, and will be implemented on 1 April 2013 for generation customers. An EDCM customer is a customer who falls within the definition of a Designated EHV Property[2]. This defines the boundary between the CDCM and EDCM.

It was important that customers received advanced notice of how the implementation of these methodologies could affect their charges. This included notifying them of whether they would be charged under the CDCM or the EDCM, and providing them with illustrative charges in advance of the implementation. The development of the CDCM and the EDCM included extensive consultation by Ofgem, and engagement by the DNOs with their customers. Therefore, generally customers were aware of their classification and their illustrative charges. However, we have been informed of a case in which a customer in the distribution area of Southern Electric Power Distribution plc (SSE) was not certain of its classification until only shortly before it was to be charged under a new methodology. This customer experienced a significant increase in its DUoS charge with very little notice. There are also factors affecting this customer that are discussed below.

This letter consults on granting a proposed two-year derogation such that SSE is relieved of its obligation to charge one specific customer under the CDCM and can instead charge it under the EDCM for a period of two years. We welcome responses by Wednesday 23 January 2013.

[1] DNOs are Distribution Services Providers as defined in SLC 1 of the electricity distribution licence.
[2] Designated EHV Properties are defined in SLC 13B.6 of the electricity distribution licence.

Background and proposed derogation

The derogation relates to one specific demand customer, connected at a voltage of 11kV in the Southern distribution area of SSE. Prior to the introduction of the EDCM for import on 1 April 2012, it was charged on a site-specific basis. It anticipated that it would continue to be charged on a site-specific basis, i.e. that it would be charged under the "EDCM for import" from 1 April 2012. SSE has informed us that it originally believed that the customer's site could fall within the definition of a Designated EHV Property. SSE has informed us that it was only confirmed in late 2011 that this was not be the case and that the customer's site would therefore be charged under the CDCM. It informed the customer of this fact, and the issue was raised with us. SSE asked us if the customer could be charged under the EDCM; the appropriate means for doing so would be for us to grant a derogation.

The customer had limited opportunity to take any action between learning that it was to be charged under the CDCM, and its CDCM charges commencing. Firstly, we had already reached our decision on the definition of a Designated EHV Property, so there was no opportunity to make representations in support of a different definition. Secondly, the customer had only a short time to consider technical or commercial options that could have changed its specification. We consider the issue of timing contributes to the case for granting a derogation.

The customer's CDCM charge for 2012/13 is significantly higher than the previous, site-specific charge for 2011/12: around 100% higher. The CDCM charge for 2012/13 is also significantly higher than the illustrative EDCM charge for 2012/13 that it would have received if it had (as it expected) been charged under the EDCM: around 180% higher. The exact figures are confidential, but the financial impact on the customer is considerable. The difference between the CDCM and EDCM charges for 2013/14 is expected to be similarly large. A change in the DUoS charge is not, in itself, sufficient justification to warrant a different approach. However, taken alongside the limited opportunity to take any action, we consider that the size of the change adds to the case for granting a derogation.

We recognise that we are consulting on this issue towards the end of 2012/13. It has been necessary to consider carefully the issues in the case of this customer, and to determine the appropriate way to proceed. We have also been focusing on the introduction of the EDCM for export, and modification proposals raised by industry parties. We consider that the timing warrants granting a two-year derogation (covering 2012/13 and 2013/14).

Owing to the circumstances set out above, we consider that there are grounds for the following derogation under SLC 13A.14:

- SSE may treat the customer's site as a Designated EHV Property for period of two years, that is:
    - in respect to the customer, SSE is relieved from its obligation under SLC 13A.4 to at all times implement and comply with the CDCM;
    - it is relieved of this obligation on the basis that this customer must be charged under the EDCM; and
    - the derogation will last for a period of two years, from 1 April 2012 to 31 March 2014, after which the customer would be charged as stipulated by the electricity distribution licence.

We welcome views on whether it is appropriate for us to grant this derogation.

Future considerations

The proposed derogation is not an enduring solution. The customer and SSE could explore options, whether regulatory, technical or commercial, that would apply from 1 April 2014 onwards.

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We note that the customer is a specific type of site, sometimes referred to as a "132kV/11kV site". Such a site is connected at the 11kV voltage level via a substation that converts the voltage directly from 132kV to 11kV, omitting the intervening voltage levels. This differentiates them from most other 11kV sites. They were considered during the development of the common methodologies, but no specific arrangements were implemented. Therefore, they are charged like other 11kV sites. Those that are defined as Designated EHV Properties receive site-specific charges under the EDCM. The others are charged on an HV tariff under the CDCM, which includes assumptions that assets are present at the intervening voltage levels.

We welcome views on whether it could be appropriate for the industry to review the treatment of 132kV/11kV sites under the CDCM. We also welcome views on whether it would be appropriate to extend any such review to other types of 11kV CDCM sites in similar situations. These are sites that are connected at 11kV via substations that omit voltage levels that the CDCM assumes to be present. To help us to consider this issue, we ask that each DNO provides us with a list of all such sites (132kV/11kV and similar categories) in its area, by the closing date of the consultation, Wednesday 23 January 2013.

Closing remarks

Ordinarily, we prefer to use options other than granting derogations. It is preferable that licensees comply in full with their licences, and that issues are addressed in ways that allow this compliance to continue. This has been our approach in other situations. For example, we have been asked about the impact of the charging methodologies on certain groups of customers (or even individual customers). In those cases, either there had been sufficient notice of the impact, or the impact was the result of a choice by a customer. Therefore, we have said that such issues should be considered by the industry parties, e.g. through the Methodologies Issues Group (MIG) and the open governance arrangements of the Distribution Charging and Use of System Agreement (DCUSA). This is an appropriate route to develop proposals that consider all of the affected customers and the wider impacts of any proposed changes. We have set out above our reasons for proposing to grant a time-limited derogation in this case.

If you would like to discuss this issue further, please contact Simon Cran-McGreehin (contact details given below). Please provide any responses to this consultation by **Wednesday 23 January 2013**, preferably by e-mail, but otherwise by post to:

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Yours faithfully,

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