



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

Promoting choice and value for all gas and electricity customers

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Electricity distribution charging: decision to impose a condition on our approval of the "EDCM for export"; and decision that this condition has been satisfied

We have been reviewing the structure of the charges that customers pay for using the electricity distribution network. The objective has been to ensure that these distribution use-of-system (DUoS) charges reflect the costs imposed on the network and are calculated in a common manner across Great Britain (GB). This approach brings benefits, including facilitating competition, encouraging efficient use of assets, and reducing expenditure on reinforcement works.

As part of this work, the Distribution Network Operators (DNOs)¹ have been developing a common charging methodology for calculating DUoS charge for customers that are connected at the higher voltages. The methodology is called the EHV Distribution Charging Methodology (EDCM)². On 1 June 2012, the DNOs submitted to us their revised proposal for the "EDCM for export", i.e. for calculating DUoS charges for EDCM generation customers. We published a consultation³ on the proposal which ran from 17 August 2012 to 2 October 2012. On 16 November 2012, we published our decision to approve the EDCM for export⁴, subject to the condition⁵ that the provision of "super-red" credits⁶ for intermittent generators was removed from the methodology before implementation. The DNOs had a period of 28 days (up to 14 December 2012) within which to make any representations on or objections on to this condition. By 24 November 2012, we had received notification from all of the DNOs that they did not intend to make any representations or objections. **We have decided to impose the condition.**

On 27 November 2012, the DNOs submitted to us a revised methodology, along with a report explaining how the condition had been addressed. The material has been published alongside this letter. We have reviewed the material, and are satisfied that the revised

¹ DNOs are Distribution Services Providers as defined in standard licence condition (SLC) 1 of the electricity distribution licence.

² The EDCM is used for all customers that fall within the definition of Designated EHV Properties in SLC 50A.11.

³ Consultation on charging methodology for higher voltage distributed generation, 17 August 2012, <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=854&refer=Networks/ElecDist/Policy/DistChrgs>

⁴ Electricity distribution charging: Direction by the Authority to approve the charging methodology for higher voltage distributed generation; notice of intention to impose a condition on approval pursuant to Part D of the Electricity Distribution Licence, 16 November 2012, <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=855&refer=Networks/ElecDist/Policy/DistChrgs>

⁵ Pursuant to SLCs 50A.21 and 50A.22.

⁶ Super-red credits are paid to generators that allow the DNOs to defer network reinforcements and hence reduce costs for consumers. This is discussed in our August consultation document and our November decision letter.

methodology does not provide super-red credits for intermittent generation. **We therefore confirm that the condition has been satisfied.**

The DNOs must now use the EDCM for export for the charging years 2013/14 and onwards. For setting charges, they must take all the necessary steps under the electricity distribution licence and the Distribution Connection and Use of System Agreement (DCUSA).

In the populated models that were submitted to us as part of the submission on 27 November 2012, we noted a small number of minor data errors. These are not errors in the model or the methodology, and they do not have a material impact on the illustrative charges. We again urge the DNOs to ensure that input data is entered correctly into the model, to ensure that the charges sent to customers are accurate.

As noted in our decision letter of 16 November 2012, the EDCM for export should be put under DCUSA open governance. The DNOs have created a combined EDCM model which calculates charges for import and export. The export part of the combined model is identical to that submitted on 1 June 2012. The import part of the combined model gives the same results, to a high degree of accuracy (i.e. charges are the same to several decimal places), as the import model which is in the DCUSA. The DNOs propose that the combined EDCM model should be put under DCUSA open governance, and they have raised a modification proposal to that effect.

The EDCM for export is the final piece of the common distribution charging methodology. Its implementation marks a significant step in the distribution structure of charges project. From 1 April 2013, there will be common, cost-reflective methodologies for the calculation of DUoS charges for all GB distribution customers. The methodologies will all be under DCUSA open governance, allowing various parties⁷ to propose modifications that they believe will help to ensure that the methodologies remain fit-for-purpose.

If you would like to discuss any aspect of this work, please contact Simon Cran-McGreehin (e-mail: Simon.Cran-McGreehin@Ofgem.gov.uk, tel: 020 7901 7440).

Yours faithfully,



Andrew Burgess
Associate Partner, Transmission and Distribution Policy

For and on behalf of the Gas and Electricity Markets Authority

5 December 2012

⁷ A Change Proposal may be made by any of the following: Parties to the DCUSA; the National Consumer Council; the National Electricity Transmission System Operator; any person or body that may from time to time be designated in writing by the Authority for the purpose of this Clause 10.2 (which may include, in respect of a Charging Methodology, any person whose interests are materially affected by that Charging Methodology); and the Authority or a DNO/IDNO Party acting at the direction of the Authority (in each case only in relation to amendments which the Authority reasonably considers are necessary to comply with or implement the Regulation on Cross-Border Exchanges in Electricity and/or any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators).