



# RIIO-ED1: Informal consultation on licence drafting – Standard Licence Conditions

## Consultation

**Publication date:** 10 January 2014

**Response deadline:** 7 February 2014

**Contact:** Tom Mackenzie

**Team:** RIIO-ED1

**Tel:** 020 7901 7406

**Email:** [Thomas.mackenzie@ofgem.gov.uk](mailto:Thomas.mackenzie@ofgem.gov.uk)

### Overview

We are consulting on our proposed changes to the standard licence conditions (SLCs) required to implement the RIIO-ED1 price control review. These conditions will apply to all electricity distribution network operators (DNOs) and, in some cases, all electricity distributors from 1 April 2015.

On 22 November 2013, we published our proposal to fast-track (settle the price control early) the four licensees of Western Power Distribution (WPD). This document consults on a subset of the licence changes that will enable us to implement WPD's settlement, should we decide to fast-track it.

## Context

---

RIIO-ED1 is the first electricity distribution price control to reflect the new RIIO (Revenue = Incentives + Innovation + Outputs) model. In the RIIO-ED1 price control review we will set the outputs that the 14 electricity distribution network operators (DNOs) need to deliver for their consumers and the associated revenues they are allowed to collect. The RIIO-ED1 review covers the eight-year price control period which lasts from 1 April 2015 to 31 March 2023.

In March 2013 we published our Strategy decision on the key elements of the regulatory framework that the DNOs would need to understand to develop their business plans.

On 22 November we concluded our assessment of the DNOs' business plans. We published a summary of our assessment and a consultation proposing that Western Power Distribution's (WPD) plans for its four DNOs are of sufficiently high quality that its price control can be settled early. To finalise the settlement we will need to change the conditions of WPD's licences. These changes come in two parts: the Standard Licence Conditions (SLCs), which apply to all DNOs, and Charge Restriction Conditions (CRCs) which are individually applicable to each DNO.

If we conclude that fast-tracking WPD is appropriate then we will look to make the necessary modifications to WPD's CRCs. At the same time, where possible, we will look to make changes to the SLCs that can be modified early for all electricity distributors. We will seek to implement these licence changes by May, with most conditions becoming active in 1 April 2015.

## Associated documents to this consultation

---

### **Documents published alongside this consultation**

- Supplementary annex 1: Draft RIIO-ED1 SLC licence changes
- Supplementary annex 2: Response template
- Supplementary annex 3: Data assurance guidance
- Supplementary annex 3A: Data assurance – looking ahead report template
- Supplementary annex 3B: Data assurance – looking back report template
- Supplementary annex 3C: Data assurance – risk assessment template

### **Other relevant documents**

- [Informal licence consultation for CRCs](#)
- [Assessment of RIIO-ED1 business plans and fast-tracking](#)
- [RIIO-ED1 Draft Determinations for Western Power Distribution Ltd](#)
- [Strategy decision for RIIO-ED1 – Overview](#)
- [RIIO ED1 Glossary](#)

# Contents

---

<b>Executive Summary</b>	<b>4</b>
<b>1. Introduction</b>	<b>5</b>
Purpose of document	5
Types of licence conditions	6
Approach to licence drafting for RIIO	7
Timetable for RIIO-ED1 licence development	7
Responding to this consultation	8
Structure of this document	9
<b>2. Proposed changes to SLCs</b>	<b>11</b>
Types of SLC change	11
Draft RIIO-ED1 licence conditions	12
Reasons and effects for proposed SLC changes	12
<b>3. Associated Documents to the SLCs</b>	<b>21</b>
What is an associated document?	21
Information on RIIO-ED1 associated documents	21
<b>Appendices</b>	<b>26</b>
<b>Appendix 1 - Consultation response and questions</b>	<b>27</b>
<b>Appendix 2 – SLC structure and proposed modifications</b>	<b>28</b>
<b>Appendix 3 - Feedback questionnaire</b>	<b>32</b>

## Executive summary

---

On 22 November 2013 we published our assessment of the business plans submitted by the DNOs.<sup>1</sup> We concluded that Western Power Distribution's (WPD) business plans, for its four licensees, are the only plans that are high quality across the board and offer value for money for consumers. We are therefore consulting on concluding WPD's price control settlement early ('fast-tracking'). At the same time we also published the Draft Determinations for WPD, setting out the details of its proposed settlement.<sup>2</sup> The consultations remain open for comment until 22 January 2014.

The price control settlement is implemented through the licence for the DNOs. The licence comprises of Standard Licence Conditions (SLCs), which are applicable to all DNOs, and Charge Restriction Conditions (CRCs), which are unique to each DNO.

This document consults on drafts of the proposed changes to the SLCs that are required for all DNOs and, in some cases, other electricity distributors.

We are also conducting a parallel consultation 'RIIO-ED1: Informal consultation on fast-track licence drafting – Charge Restriction Conditions (Part 1)'. This sets out our current thinking on how the CRCs for WPD should be amended to implement its RIIO-ED1 price control settlement.

In March, we will conduct the requisite 28-day statutory consultations. These will cover the changes to the SLCs and WPD's CRCs that can be finalised early. We will publish our licence modification decisions in May.

The statutory licence consultation for the slow-track companies' CRCs will occur late in 2014 or early in 2015. At the same time there will be a separate statutory consultation to make any residual changes to the SLCs that could not be finalised in May 2014. Licence changes will come into force from 1 April 2015.

---

<sup>1</sup> RIIO-ED1 Business plan assessment and fast-tracked consultation - <https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-business-plan-assessment-and-fast-tracked-consultation>

<sup>2</sup> RIIO-ED1 Draft Determinations for Western Power Distribution Ltd - <https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-draft-determinations-fast-tracked-distribution-network-operators--western-power-distribution>

# 1. Introduction

## Chapter Summary

A guide to the purpose and structure of the document. It also provides an overview of our approach to licence drafting and our next steps in the licence development process.

## Purpose of this document

1.1. In this document we set out our current thinking on the proposed changes to the Standard Licence Conditions (SLCs) that are required to implement RIIO-ED1.

1.2. The purpose of this consultation is to seek views on whether our proposed licence drafting reflects the policy position set out in the Strategy decision and within the Draft Determinations published for Western Power Distribution (WPD).<sup>3</sup>

1.3. We have also published 'RIIO-ED1: Informal consultation on fast-track licence drafting – Charge Restriction Conditions (Part 1)' ('CRC informal consultation'), which we are consulting on in parallel. This sets out our current thinking on how the Charge Restriction Conditions (CRCs) for WPD, the Distribution Network Operator (DNO) put forward for fast-tracking, should be modified in order to bring into force their RIIO-ED1 fast-track price control settlement.<sup>4</sup>

1.4. We will publish a second licence consultation 'RIIO-ED1: Informal consultation on fast-track licence drafting – Charge Restriction Conditions (Part 2)' ('CRC Informal consultation part 2') on 31 January 2014. This will consult on:

- drafts of some CRCs
- the RIIO ED1 Price Control Financial Handbook
- Electricity Distribution Price Control 5 (DPCR5) policy changes that are required to close out DPCR5 schemes during RIIO-ED1.

<sup>3</sup> Strategy decision for the RIIO-ED1 electricity distribution price control - <https://www.ofgem.gov.uk/publications-and-updates/strategy-decision-riio-ed1-overview> and the RIIO-ED1 Draft Determinations for fast-tracked Distribution Network Operators – Western Power Distribution - <https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-draft-determinations-fast-tracked-distribution-network-operators---western-power-distribution>

<sup>4</sup> <https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-informal-consultation-fast-track-licence-drafting-%E2%80%93-charge-restriction-conditions-part-1>

1.5. If we decide to fast-track WPD, we expect to publish its Final Determinations in February. In March we aim to publish the statutory consultations on:

- the final set of CRCs for WPD's four licensees
- the SLCs, covering all DNOs and, in some cases, all electricity distributors, that can be finalised early.

1.6. We intend to publish the licence modifications in May. This will bring the relevant licence conditions (both SLCs and CRCs) into force from 1 April 2015.<sup>5</sup>

1.7. The timetable for making the necessary RIIO-ED1 licence changes for both SLCs and CRCs is set out at the end of this chapter. This includes the approach we will follow to make changes for slow-track companies' CRCs and for SLC that we are unable to finalise early.

## Types of licence conditions

1.8. There are two different types of licence condition in electricity distribution licences: SLCs and CRCs.

### Standard Licence Conditions (SLCs)

1.9. SLCs set out the duties and obligations applicable to all holders of an electricity distribution licence. They are shared conditions. The SLCs are grouped into two sections. Section A applies to all Electricity Distributors, both DNOs and Independent Distribution Network Operators (IDNOs). Section B applies only to DNOs. SLCs do not feed into the determination of the DNOs' allowed revenue – this is done through the CRCs.

### Charge Restriction Conditions (CRCs)

1.10. CRCs apply specifically to each licensee (ie each DNO has its own set). However, certain conditions may be similar and, in some cases, identical across the DNOs. Broadly, CRCs place obligations on companies that have an impact on their allowed revenue.

---

<sup>5</sup> Except CRC 4C (Price Control update provisions for Fast-Track licensees) which will come into force for WPD licensees in Summer 2014 and is in effect until 1 April 2015.

## **Approach to licence drafting for RIIO**

### **Licence Drafting Working Group**

1.11. We have created a Licence Drafting Working Group (LDWG) consisting of members of the Ofgem team and DNO representatives. This group meets regularly to review and develop the licence conditions. The DNOs have been very committed to this process and have provided constructive feedback. We will continue to hold LDWGs meetings over 2014, to finalise the fast-track licence and develop the CRCs and any remaining SLCs for the slow-track companies.

### **Licence structure**

1.12. We do not propose significant changes to the structure of the current SLCs. We have sought to insert any new SLCs at appropriate places within the current licence structure.

1.13. Most of the proposed changes to the SLCs are to conditions within Part B of the licence, which only apply to DNOs. The changes involve a mixture of incremental changes to current conditions, removal of conditions that are no longer required and new SLCs. Appendix 2 of this consultation provides a snapshot of the current SLC structure and our proposed modifications for RIIO-ED1.

## **Timetable for RIIO-ED1 licence development**

1.14. The timetable for making the necessary RIIO-ED1 CRC and SLC licence changes is set out in Table 1, including for the slow-track companies.

**Table 1: Timetable for RIIO-ED1 licence development**

Stage	Date
<b>Charge Restriction Conditions</b>	
<i>WPD</i>	
CRC Informal consultation part 2	31 January 2014
28 day statutory licence modification consultations and notices published	March 2014
Licence modification decisions and modifications published	May 2014
Licence changes come into force*	1 April 2015
<i>Slow-track companies</i>	
Informal licence drafting consultation	September 2014
28 day statutory licence modification consultations and notices published	December 2014/January 2015
Licence modification decisions and modifications published	February 2015
Licence changes come into force	1 April 2015
<b>Standard licence conditions</b>	
<i>All Electricity Distributors: RIIO-ED1 SLC modifications that can be finalised early</i>	
28 day statutory licence modification consultation and notices published	March 2014
Licence modification decision and modifications published	May 2014
Licence changes come into force	1 April 2015
<i>All Electricity Distributors: RIIO-ED1 remaining SLC modifications</i>	
Informal licence drafting consultation	September 2014
28 day statutory licence modification consultation and notices published	December 2014/January 2015
Licence modification decision and modifications published	February 2015
Licence changes come into force	1 April 2015
*Except for condition CRC 4C (Price Control update provisions for Fast-Track licensees), which will come into force for WPD licensees in Summer 2014 and is in effect until 1 April 2015.	

## Responding to this consultation

1.15. The proposed SLCs are set out in Supplementary annex 1 - Draft RIIO-ED1 SLC licence changes. We welcome comments on the proposed drafting and the specific questions set out in this consultation.

1.16. We ask that you use the Response Template (Supplementary annex 2) to provide any substantive feedback on each individual licence condition. Please ensure that any points raised in the cover letter are also made in the Response Template. Minor points on the individual licence drafts (eg formatting and drafting improvements) can be supplied in a tracked-change version of the relevant licence condition.



## Structure of this document

1.17. The remainder of this document is structured as follows:

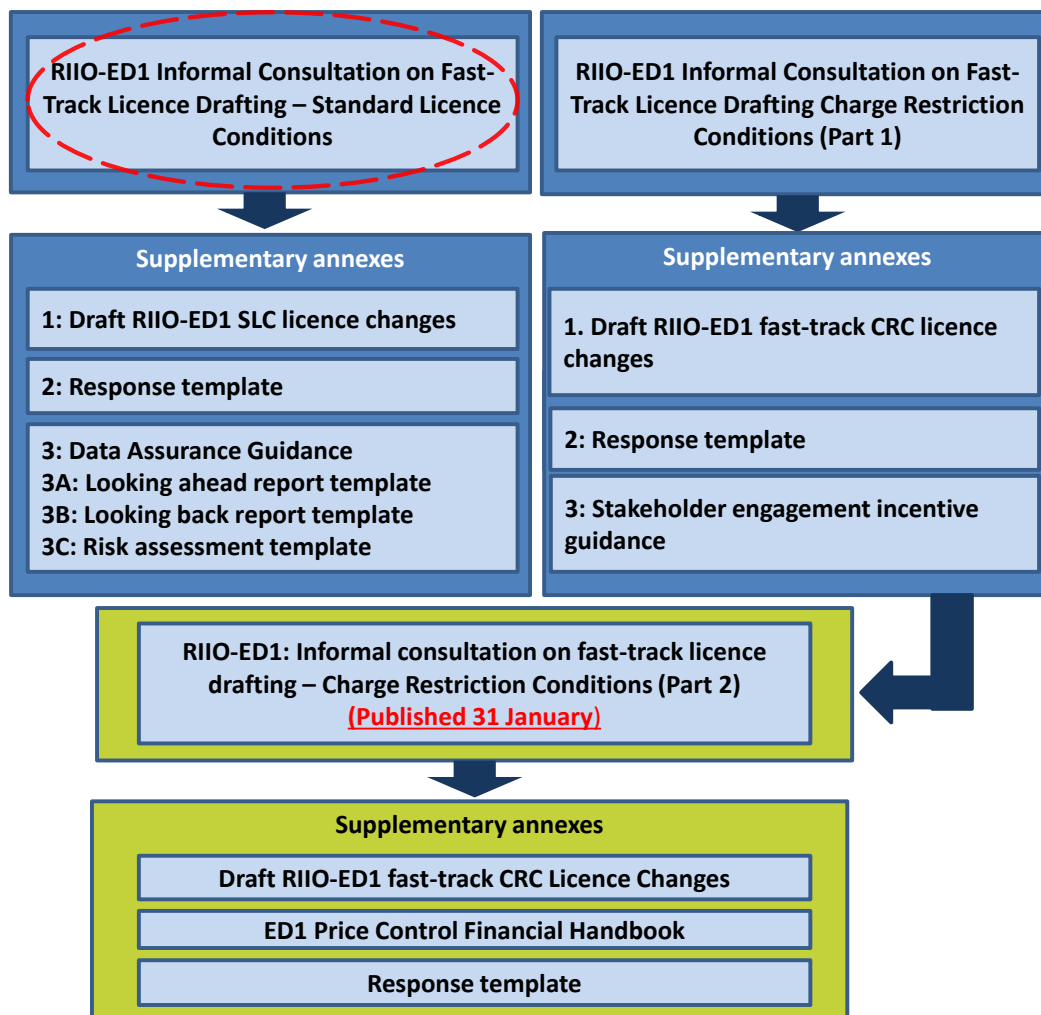
- Chapter 2: details the type of proposed change to the SLCs, the reason behind the change and the intended effect of this.
- Chapter 3: outlines the associated documents that are being created for RIIO-ED1 that are governed by the licence.

1.18. Alongside this document we have also published the following Supplementary annexes:

- Supplementary annex 1: Draft RIIO-ED1 SLC licence changes
- Supplementary annex 2: Response template
- Supplementary annex 3: Data assurance guidance
- Supplementary annex 3A: Data assurance – Looking ahead report template
- Supplementary annex 3B: Data assurance – Looking back report template
- Supplementary annex 3C: Data assurance – Risk assessment template

1.19. Figure 1.1 below sets out a map of the documents being published today.

**Figure 1.1: Map of the RIIO-ED1 Informal consultation documents**



## 2. Proposed changes to SLCs

---

### Chapter Summary

Sets out our proposed changes to the SLCs for all DNOs. It outlines our reasons for the proposed changes as well as their intended effect.

**Question 1:** Do you have any views on the proposed changes to the SLCs? The draft licence conditions are found in Supplementary annex 1.

**Question 2:** Do you have any views on the reasons and effects for the licence changes?

**Question 3:** Unless marked in the reason and effects, do you agree that these SLCs can be finalised early (as per the timetable in Table 1)?

### Types of SLC change

2.1. The proposed SLC changes fall into three broad categories:

- removal of a SLC that was required for the current price control, DPCR5, but is not required for RIIO-ED1
- amendment to a current SLC
- new SLC for RIIO-ED1.

2.2. Where we refer to the 'current' condition, or what a condition 'currently' refers to, we are referring to the condition in the current (DPCR5) licence.

### Removal of SLCs from licence

2.3. Some DPCR5 SLCs should no longer exist for RIIO-ED1. This is typically because a change in policy has led to an obligation no longer being applicable.

### Amendment to current SLCs

2.4. We want to amend some of the current SLCs in order to reflect the new RIIO-ED1 policy and ensure that they remain operational under the RIIO regulatory framework.

2.5. Some amendments to particular SLCs are relatively minor, while amendments to others are numerous and substantive. Where the amendments are minor, we have shown them in tracked changes made to the current DPCR5 condition. Where the changes are extensive we have not shown them in tracked changes.

### New SLCs for RIIO-ED1

2.6. We have proposed some new SLCs. This is to reflect new policy being introduced for RIIO-ED1.

## **Draft RIIO-ED1 licence conditions**

2.7. We have set out the proposed SLC licence changes in Supplementary annex 1: Draft RIIO-ED1 SLC licence changes. This means that stakeholders will have an opportunity to comment on all the SLCs before the fast-track licence statutory consultation in March 2014.

## **Reasons and effects for proposed SLC changes**

2.8. We have set out the reasons and effects for the SLCs we propose to change in the order they appear in our proposed new structure (see Appendix 2).

### **Section A: Standard conditions for all electricity distributors**

#### **SLC 1. Definitions for the standard conditions**

Type of change: Amendment

2.9. This condition sets out the defined terms and expressions that are applicable to the standard conditions of the licence and appear in more than one standard condition. Any defined terms and expressions used in a single condition are listed in condition in which they are used.

2.10. The reason for the proposed modifications is to update the defined terms and their definitions as a result of other licence conditions being modified to bring RIIO-ED1 into effect.

2.11. The effect of the changes is to create an up-to-date list of the defined terms and their definitions that are necessary to understand the SLCs that will be in force over the RIIO-ED1 period.

#### **SLC 11. Reporting on performance under Chapter 3**

Type of change: Amendment

2.12. The reason for the proposed modification is to update references to regulations in respect of the reporting requirements for interruptions and connections to ensure consistency with relevant legislation. The effect is to replace the existing references to the Electricity (Connection Standard of Performance) Regulations 2010 and the Electricity (Standards of Performance) Regulations 2010) with revised references.

2.13. We do not intend to update this condition until the time we look to implement the licence changes for the slow-track companies (statutory consultation late

2014/early 2015). This is because we need to wait for the revised statutory instrument numbers.

### **SLC 13C. Recovery of reinforcement costs for relevant customers**

Type of change: New condition

2.14. The reason for this proposed new condition is to implement our Strategy decision to require out that reinforcement, triggered by existing domestic and small business (profile class 3 and 4) customers to be recovered through Distribution Use of System (DUoS) Charges.

2.15. The effect of this condition is to require licensees not to recover certain reinforcement costs through connection charges on domestic and small business customers. Rather than use profile classes to define small business customers, we have used metering type as we considered metering was a more tangible differentiator. This condition will be implemented only if this requirement is met by appropriate amendments to the connection charging methodology (CCCM).

2.16. In our Strategy decision we stated that we would make an exception to our decision for clearly identifiable equipment which poses significant network issues. We established a working group with DNOs, IDNOs and DG parties to help work through the detail of implementing our decision on reinforcement costs, including drafting revisions to the CCCM. Through this working group we have discussed employing a cost cap as the best way to distinguish between 'significant network issues', where DNOs can charge in line with current practice and other costs which should be recovered through DUoS.

2.17. We are in the process of gathering information from the working group to help us set the level of the cap. In the event that it proves too difficult to use a cost cap to deliver the intent behind our decision, we have included in the licence another option to allow DNOs to charge for certain types of equipment. We will review responses from the working group and use these to decide on which option is most appropriate in time for the statutory consultation on the SLCs.

### **SLC 14. Charges for use of system and connection**

Type of change: Amendment

2.18. This condition sets out the licensee's obligations in relation to how it charges for use of system, including the requirement to give three months' notice of any changes. We are proposing changes to this condition to give effect to our decision on measures to mitigate charging volatility.<sup>6</sup> We are also proposing changes to

---

<sup>6</sup> Decision in relation to measures to mitigate network charging volatility arising from the price control settlement (Oct 2012): <https://www.ofgem.gov.uk/ofgem-publications/50572/cvdecision.pdf>

paragraph 14.16 to allow IDNO and DNOs operating out of area to earn a margin on connection activities.

2.19. The effect of the proposed changes is to implement our decision to limit the ability of the licensee to change use of system charges on a date other than 1 April each year, unless the Authority directs or consents to changes on a date other than 1 April. It also enables IDNOs or DNOs operating outside of their Distribution Services Area to earn an unregulated margin on undertaking connection activities that are open to competition.

### **SLC 15A. Connection policy and connection performance**

Type of change: Amendment

2.20. The reasons for these proposed changes are to:

- remove the Authority's ability to issue Connection Regulatory Instructions and Guidance (RIGs) under this licence condition. The scope/content of our RIGs, procedure for issuing/modifying RIGs and compliance with RIGs provisions are now all included in SLC 46 (Regulatory Instructions Guidance)
- move the meaning of DG terms to the definition section, to improve clarity
- remove references to the DG Standards Direction having effect from 1 October 2010, to make the condition applicable to RIIO-ED1
- remove Part K of the current condition to allow licensees derogation from this specific licence condition
- remove Part J and amalgamate the process for making changes to the DG Standard into one section (Part I), to improve clarity.

2.21. The effects of the changes are to ensure that the condition remains applicable for the RIIO-ED1 price control period, as well as to improve clarity.

### **SLC 25A. Distributed generation connections guide**

Type of change: Amendment

Current name: Distributed Generation: Connections Guide and Information Strategy

2.22. This condition ensures that the licensee makes information available to the public that will assist anyone who might wish to enter into arrangements with the licensee relating to the connection of a DG on the distribution network.

2.23. We propose to remove all obligations in the current licence condition that relate to network companies publishing the DG Information Strategy. The reason for this change is that there are new obligations in this area that are being introduced as part of RIIO-ED1 through CRC 2E (Incentive on Connection Engagement).

2.24. The effect of the changes is to remove outdated obligations on network companies that have been superseded by new requirements elsewhere in the licence. The change does not alter current provisions on the licensees to publish a DG Connection Guide.

## **Section B: Additional standard conditions for electricity distributors that are distribution service providers**

### **SLC 33. Definitions for the Section B standard conditions**

Type of change: Removal from licence

2.25. The reason for the proposed removal of this condition is because the majority of the definitions in this condition, relate to the current conditions SLC 44A to SLC 49, which we propose to remove. The reasons and effects of the removal of SLC 44A to SLC 49 are set out below. Any defined terms that remain applicable over RIIO-ED1 will either be moved to SLC 1 (Definitions for the standard conditions) or included within their 'home' licence condition.

2.26. The effect is to remove a condition that, due to changes made elsewhere in the licence, is defunct.

### **SLC 44. Regulatory accounts**

Type of change: Amendment

2.27. We propose to amend this condition so as to:

- clarify that any CA2006 allowed Applicable Accounting Framework may be used provided that the Regulatory Accounts (whether group or individual accounts) must be in the same format and Applicable Accounting Framework as the recent or concurrent statutory accounts of the licensee:
  - allow for amendments introduced by
  - the new Statutory Instrument 2012, No.2301
  - Statutory Instrument 2013, No. 1971
  - The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.
- remove the licensee's obligation to send a copy of its Regulatory Accounts to the National Consumer Council, given that there is a requirement in this condition to make them available on the licensee's website and provide them, free of charge, to anyone that requests them
- make any necessary incidental or consequential changes to the condition including clarifying definitions.

2.28. The reason why we propose to make these changes is to ensure that it remains up to date and correctly refers to the latest relevant regulations and requirements.

2.29. The effect of the proposed changes is to:

- provide that Regulatory Accounts can be prepared under any Applicable Accounting Framework and that they must be prepared on the same framework as the latest or concurrent statutory accounts
- include provision for preparing group accounts where the licensee is a parent company and prepares its statutory accounts as group accounts
- provide greater clarity and ensure that the condition remains up to date and is correctly referenced.

### **SLCs 44A to 49. Regulatory instructions and guidance related conditions**

Type of change: Removal from licence

2.30. We propose to completely remove the SLCs listed in the Table 2 below. The obligations that are set out in these conditions will be covered in the new SLC 46 (Regulatory Instructions and Guidance) and in the Regulatory Instructions and Guidance (RIGs) themselves.

2.31. The effect of removing these conditions is to consolidate all reporting requirements into the new SLC 46 (Regulatory Instructions and Guidance). It does not alter the broad types of information that the DNOs will need to provide.

**Table 2: SLCs to be removed from the licence.**

<b>Current SLC</b>	<b>Current Name</b>
44A	Network Outputs Regime
44B	Distribution Losses Reporting Requirement
44C	Low Carbon Networks Fund Reporting
45	Incentive scheme for quality of service
45A	Incentive scheme for Transmission Connection Point Charges
46	Incentive schemes for innovation funding and Distributed Generation
46A	Business Carbon Footprint Reporting
47	Reporting of Price Control Revenue Information
48	Reporting of Price control Cost Information
49	Modification of the RIGs in force under Chapter 4 and 12 and overarching RIG structure



## **SLC 45. Data assurance requirements**

Type of change: New condition

2.32. The reason for this proposed new licence condition is to require the licensee to undertake Data Assurance Activities and processes to reduce the risk of any inaccurate reporting, incomplete reporting or misreporting of Data to the Authority.

2.33. The effect is to create, and provide governance for, the Data Assurance Guidance (DAG). The DAG is an associated document to the licence. Further information on this document can be found in Chapter 3.

## **SLC 46. Regulatory instructions and guidance**

Type of change: New condition

2.34. The reasons for this proposed new condition are that we need to collect price control review information from the DNOs on revenue, expenditure and outputs. This information is used to monitor network company performance and, where appropriate, make adjustments to revenue allowances, eg through financial incentives that are part of the price control. To collect this information we use the RIGs.

2.35. RIGs is the collective term for the group of documents that includes:

- instructions and guidance on what data the network companies must report
- how they should report it
- the templates they must complete.

2.36. The RIGs is an associated document to the licence. Further information on the RIGs can be found in Chapter 3 of this consultation.

2.37. Reporting requirements for the DNOs are currently set out in a number of different licence conditions. As part of RIIO-ED1, we propose to consolidate the governance and instructions for the reporting of regulatory information into this new, single, RIGs licence condition.

2.38. The effect of introducing this condition is to remove the need for other reporting related provisions within other standard conditions in the licence. It also provides clarity and, where possible, provides consistency in the reporting of regulatory information. Having a single licence condition has not altered the broad types of information that the energy network companies will need to provide.

## **SLC 47. Environment reporting**

Type of change: New condition

2.39. The reason for this proposed new condition is to provide stakeholders with easy to access information on licensees' activities in relation to the environment. The condition also creates, and provides governance for, the Environment Report Guidance Document (ERGD) which will be published by the Authority to set out how the licensee must report on its environmental activities. The ERGD is an associated document to the licence. Further information on this document can be found in Chapter 3.

2.40. The effect of this condition is to compel the licensee to undertake its environmental reporting in accordance with the provisions set out in the ERGD.

## **SLC 48. The innovation strategy**

Type of change: New condition

2.41. The reason this new condition is being introduced is to affect the policy set out in the Strategy decision that licensees should have an innovation strategy and ensure that it is kept up to date.

2.42. The effect of this condition to require the licensee to have in place an innovation strategy that is kept up to date.

## **SLC 49. Electricity distribution losses management obligation and distribution losses strategy**

Type of change: New condition

2.43. The reasons for proposing this condition are to provide a means of ensuring that electricity distribution losses are managed to a level as low as is reasonably practicable and to ensure that licensees establish and implement strategies to this effect.

2.44. The effect of the condition is to place an obligation on the licensee to manage electricity Distribution Losses on its Distribution System, including losses from the Relevant Theft of Electricity, to a level as low as reasonably practicable, and maintain and act in accordance with its Distribution Losses Strategy.

2.45. The condition also creates, and provides governance for the Distribution Losses Strategy Guidance. Further information on this document can be found in Chapter 3 of this consultation.

## **SLC 50. Business plan commitment reporting**

Type of change: New condition

2.46. The reason for proposing this new condition is to ensure that the licensee is accountable for commitments made in its RIIO-ED1 business plan which are not the subject of specific licence conditions.

2.47. The effect of this condition is to require the licensee to publish a report annually on its performance against such commitments. The condition also creates, and provides governance for the Business Plan Reporting Guidance. Further information on this document can be found in Chapter 3 of this consultation.

## **SLC 50A. Development and implementation of an EHV distribution charging methodology**

Type of change and effect: Removal from licence

2.48. The reason for proposing this modification is that the vast majority of the current condition's obligations have now been fulfilled and the current condition SLC 13B carries the necessary arrangements going forward. SLC 13 enables conditions to be placed on the implementation of EDCM and one of these remains to be completed and closed. We have committed to work with industry after April 2014 and look to finalise our decision on network use factors and facilitate DCP138 (a related modification). This should enable the whole of SLC 50A to be removed from the licence.

2.49. We should know more on whether it is feasible to remove SLC 50A by Summer 2014 and will, if appropriate, look to complete its removal as part of the statutory consultation for the slow-tracked companies in late 2014/early 2015.

## **SLC 51. Network asset indices methodology**

Type of change: New condition

2.50. The reason for this proposed condition is to ensure that the licensee is able to report on its Network Asset Secondary Deliverables in a manner which accords with best industry practice.

2.51. The effect of this condition is to require the licensee to:

- establish a Network Asset Indices Methodology
- in certain circumstances, put in place and follow an information gathering plan to ensure that the licensee has appropriate information to support the measurement of its Network Asset Secondary Deliverables
- work with other licensees to develop a Common Network Asset Methodology and implement that in its own methodology
- keep under review and where necessary modify the Common Network Asset Methodology to ensure it remains fit for purpose.

## 3. Associated Documents to the SLCs

---

### Chapter Summary

Outlines the purpose and content of new associated RIIO documents that the proposed RIIO licence conditions will create.

**Question 1:** Do you have any comments on the associated documents that we propose to create and their content?

### What is an associated document?

3.1. Associated documents are ancillary documents to the licence. They provide further guidance or instructions to the DNOs on specific policy areas. They vary in content and give the licensee further information on specific schemes set out in the licence, including:

- the process that we will follow to derive an adjustment in allowed revenue
- governance arrangements or guidance for participating in a scheme
- details on what, and how, the licensee should report particular forms of information.

3.2. The process for issuing and modifying associated documents is set out in the licence condition that covers the related scheme. We have proposed the same process for issuing and modifying all associated documents.

3.3. For both issuing and modifying associated documents the Authority issues a direction. Before issuing the direction there will be a 28 day consultation by notice, setting out the reasons and effects of proposed changes. The Authority will then consider responses and give reasons for the final decision as part of the direction.

3.4. Associated documents may contain both non-binding guidance and instructions which the licensee must comply with as if they were part of the licence. Where possible, these elements will be differentiated in the documents.

3.5. This chapter provides further information on some of the associated documents for RIIO-ED1.

### Information on RIIO-ED1 associated documents

#### Data Assurance Guidance (DAG)

3.6. The draft licence condition SLC 45 (Data Assurance requirements) establishes the Data Assurance Guidance (DAG), its scope and governance arrangements. The purpose of the DAG is to provide assurance to the Authority that the DNOs have

adequately assessed the risks associated with all submissions to the Authority and that they have in place, and apply appropriate systems and processes in order to minimise the risk of any inaccurate or incomplete reporting, or any misreporting, of information to the Authority.

3.7. As part of this informal consultation we have provided a draft of the DAG and associated reporting templates. These are set out in:

- Supplementary annex 3: Data assurance guidance
- Supplementary annex 3A: Data assurance – looking ahead report template
- Supplementary annex 3B: Data assurance – looking back report template
- Supplementary annex 3C: Data assurance – risk assessment template

3.8. The DAG and associated reporting templates will be in common to all DNOs.

3.9. The DAG is being developed through a working group with the DNOs and by trialling the reporting and risk assessment requirements with them.

3.10. The gas transmission, gas distribution and electricity transmission licences contain DAG conditions similar to RIIO-ED1 draft licence condition SLC45. The provisions under these conditions are not scheduled to come into effect until the date on which the RIIO-ED1 licence comes into effect. The reason for this is to allow us to develop and trial the DAG with as much consistency as possible between transmission, gas distribution, and electricity distribution.

3.11. Under the current trial timetable, DNOs are due to submit further trial reports on or before the following dates: 31 March 2014 and 31 October 2014, with the trials due to end by the end of 2014.

### **Regulatory Instruction and Guidance (RIGS)**

3.12. The draft licence condition SLC 46 (Regulatory Instructions and Guidance) establishes the group of documents that includes instructions and guidance on what data the DNOs must report and how, and the templates they must complete. These documents are collectively referred to as the Regulatory Instructions and Guidance (RIGs), and they are the primary means by which we ensure that the DNOs collect and provide to us the information we require to monitor their performance and, where appropriate, make adjustments to revenue allowances, eg through financial incentives that are part of the price control. There is a single set of RIGs documents that apply to all the DNOs.

3.13. We currently have RIGs in place for the current price control, DPCR5. We have introduced SLC 46 to consolidate reporting provisions in the licence, and to ensure that data is reported through the RIGs wherever possible.

3.14. We will develop the RIGs for RIIO-ED1 using the current RIGs in force for DPCR5 as a basis. The developments will include the following:

- adding new data requirements for new obligations under the RIIO-ED1 licence
- removing data requirements where obligations have been removed
- looking for opportunities to consolidate and streamline data reporting.

3.15. The RIGs will include instructions and guidance around the following (amongst other things, and where required):

- the systems, processes, procedures, recording and provision of the required information
- levels of accuracy and reliability
- any specific audit requirements
- methodologies for calculating the required data
- definitions
- how often, and how the data should be recorded
- the provision of the data to the Authority (format, frequency etc)
- reasons why the data is required

3.16. We propose that the RIGs will contain historical data for all years of RIIO-ED1. Where appropriate forecast data will be captured.

3.17. We propose that the RIGs comprise four main elements:

- templates for reporting the data (in MS Excel v.2007 or newer)
- templates containing the calculation of the revenue elements – revenue reporting (including performance against incentives) (in MS Excel v.2007 or newer)
- templates for providing commentaries against the data (in MS Word), and
- instructions and guidance on how to report the data (in MS Word).

3.18. The RIGs currently in force for DPCR5 can be accessed at the following links:

- Version 3 of the Cost and Revenue Reporting RIGs and the Network Asset and Performance Reporting RIGs.<sup>7</sup>
- Version 2 of the Customer Service RIGs.<sup>8</sup>

---

<sup>7</sup> <https://www.ofgem.gov.uk/publications-and-updates/dpcr5-regulatory-instructions-and-guidance-rigs-v.3-notice-under-part-d-standard-condition-49-electricity-distribution-licence-%E2%80%93-modification-cost-and-revenue-reporting-rig-and-network-asset-and-performance-reporting-rig>

<sup>8</sup> <https://www.ofgem.gov.uk/publications-and-updates/direction-letter-issued-pursuant-standard-condition-49-distribution-licence-modify-customer-service-reporting-regulatory-instructions-and-guidance>

3.19. We propose that the RIGs will set out the data that the DNOs are required to report, including the level of accuracy. The DAG will set out the processes and activities that the DNOs should undertake in order to assure the quality, completeness and timeliness of the data that they have reported.

3.20. We propose to develop the RIIO-ED1 RIGs during 2014, and potentially into 2015. We will create a specific RIGs working group comprising Ofgem and representatives of the DNOs. This group will feed into the detailed RIGs development. The development of the RIGs will also be informed by the relevant policy working groups (again comprising DNO representatives and Ofgem). We also anticipate that the RIGs will be reviewed by the LDWG in order to provide comments on legal drafting.

### **Environmental Reporting Guidance Document**

3.21. The draft licence condition SLC 47 (Environmental Reporting) establishes the requirement for DNOs to publish an Environment Report that is stakeholder-focused and accessible. The purpose of the report, amongst other things, is to:

- address concerns regarding public accountability and transparency
- demonstrate integration of innovation learning into business as usual to address a DNO's environmental impacts
- outline a DNO's response to the move to a low carbon economy including 'smart' activities

3.22. This reporting requirement is separate from the reporting requirement outlined under the new SLC 50 (Business Plan Commitment Reporting). We intend to develop this through the work group and will consult on the draft ERGD within quarter one 2014.

### **Distribution Losses Strategy Guidance**

3.23. The draft licence condition SLC 49 (Electricity Distribution Losses Management Obligation and Distribution Losses Strategy) establishes the Distribution Losses Strategy Guidance and its governance arrangements.

3.24. The Distribution Losses Strategy Guidance may be issued from time to time by the Authority during the RIIO-ED1 price control period. If issued, the purpose of the guidance is to set out factors that the licensee should take into account in meeting its obligations in this condition.

### **Business Plan Reporting Guidance**

3.25. The draft licence condition SLC 50 (Business Plan Commitment Reporting) establishes the Business Plan reporting Guidance and its governance arrangements.



3.26. The Business Plan reporting Guidance may be issued from time to time by the Authority during the RIIO-ED1 price control period. If issued, the purpose of the guidance is to set out factors that the licensee should take into account in meeting its obligations in this condition.

## Appendices

---

<b>Appendix</b>	<b>Name of Appendix</b>	<b>Page Number</b>
1	Consultation response and questions	27
2	SLC structure and proposed modifications	28
3	Feedback questionnaire	32

## Appendix 1 - Consultation response and questions

---

1.1. We would like to hear your on any of the issues set out in this document.

1.2. We especially welcome responses to the specific questions at the beginning of each chapter. These are replicated below. Responses should be received by 7 February 2014 and should be sent to [Thomas.Mackenzie@ofgem.gov.uk](mailto:Thomas.Mackenzie@ofgem.gov.uk).

1.3. Unless marked confidential, all responses will be published in our library and on our website [www.ofgem.gov.uk](http://www.ofgem.gov.uk). You may request that their response is kept confidential. We shall respect this request, unless the law requires us to disclose anything, for example - under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.4. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. Respondents are asked to put any confidential material in the appendices to their response.

1.5. We intend to publish our decision on the draft SLCs in May, after considering the responses to this consultation. Any questions should, initially be directed to:

- Thomas Mackenzie
- 0207 901 7406
- [Thomas.Mackenzie@ofgem.gov.uk](mailto:Thomas.Mackenzie@ofgem.gov.uk)

### **CHAPTER: Two**

- **Question 1:** Do you have any views on the proposed changes to the SLCs? The draft licence conditions are found in Supplementary annex 1.
- **Question 2:** Do you have any views on the reasons and effects for the licence changes?
- **Question 3:** Unless marked in the reason and effects, do you agree that these SLCs can be finalised early (as per the timetable in Table 1)?

### **CHAPTER: Three**

- **Question 1:** Do you have any comments on the associated documents that we propose to create and their content?

## Appendix 2 – SLC structure and proposed modifications

Licence Number	SLC	Proposed change for RIIO-ED1	Associated Document Created?
<b>Section A: Standard conditions for all electricity distributors</b>			
<b>Chapter 1: Interpretation and Application</b>			
1	Definitions for the standard conditions	Amendment	No
2	Interpretation of this licence	No Change	No
3	Application of Section B of the standard conditions	No Change	No
<b>Chapter 2: General Obligations and Arrangements</b>			
4	No abuse of the licensee's special position	No Change	No
5	Licensee's payments to the Authority	No Change	No
6	Provision of Information to the Authority	No Change	No
6A	Smart metering systems and provision of information to the Secretary of State	No Change	No
7	Determinations by the Authority	No Change	No
<b>Chapter 3: Public Service Requirements</b>			
8	Safety and security of supplies enquiry service	No Change	No
9	Arrangements for access to premises	No Change	No
10	Special services and complaints procedure	No Change	No
10A	Smart metering – matters relating to obtaining and using consumption data	No Change	No
11	Reporting on performance	Amendment	No
<b>Chapter 4: Arrangements for the Provision of Services</b>			
12	Requirement to offer terms for Use of System and connection	No Change	No
13	Charging Methodologies for Use of System and connection	No Change	No
13A	Common distribution charging methodology	No Change	No
13B	EHV distribution charging methodology	No Change	No
13C	Recovery of reinforcement costs for relevant customers	New for RIIO-ED1	No
14	Charges for Use of System and connection	Amendment	No

RIIO-ED1: Informal consultation on licence drafting – Standard Licence Conditions

15	Standards for the provision of Non-Contestable Connection Services	No change	No
15A	Connection Policy and Connection Performance	Amendment	No
16	Requirement to offer terms for the connection of Metering Equipment	No Change	No
17	Requirement to offer terms for the provision of Metering Point Admin Services	No Change	No
18	Provision of and charges for Metering Point Administration Services	No Change	No
19	Prohibition of discrimination under Chapters 4 and 5	No Change	No
<b>Chapter 5: Industry Codes and Agreements</b>			
20	Compliance with core industry documents	No Change	No
21	The distribution code	No Change	No
22	Distribution connection and Use of System agreement	No Change	No
22A	Governance and change control arrangements for Relevant Charging	No Change	No
23	Master registration agreement	No Change	No
<b>Chapter 6: Integrity and Development of the Network</b>			
24	Distribution system planning standard and quality of performance reporting	No Change	No
25	Long-Term development statement	No Change	No
25A	Distributed generation: connections guide and information strategy	Amendment	No
26	Disposal of relevant assets and restrictions on charges over Receivables	No Change	No
27	Theft, damage, and meter interference	No Change	No
28	Application of statutory powers	No Change	No
<b>Chapter 7: Financial and Ring-Fencing Arrangements</b>			
29	Restriction of activity and financial ring-fencing of the Distribution Business	No Change	No
30	Availability of resources	No Change	No
31	Undertaking from Ultimate Controller	No Change	No
31A	Accounts	No Change	No
31B	Independence of the Distribution Business and restricted use of Confidential Information	No Change	No
31C	Appointment of compliance officer	No Change	No

<b>Section B: Additional standard conditions for electricity distributors who are distribution services providers</b>			
<b>Chapter 8: Application and Interpretation of Section B</b>			
32	Effect of the application of Section B	No Change	No
<b>Chapter 9: Requirements within the Distribution Services Area</b>			
34	Requirement to offer terms for the provision of Legacy Metering Equipment	No Change	No
35	Requirement to offer terms for the provision of Data Services	No Change	No
36	Charges for the provision of Legacy Metering Equipment and Data Services	No Change	No
37	Provision of the Data Transfer Service	No Change	No
38	Treatment of payment claims for last-resort supply	No Change	No
39	Prohibition of discrimination under Chapter 9	No Change	No
<b>Chapter 10: Credit Rating and Restriction of Indebtedness</b>			
40	Credit rating of the licensee	No Change	No
41	Restriction of Indebtedness and transfers of funds	No Change	No
<b>Chapter 11: Independence of the Distribution Business</b>			
42	Independence of the Distribution Business and restricted use of Confidential Information	No Change	No
43	Appointment of compliance officer	No Change	No
43a	Requirement for sufficiently independent directors	No Change	No
<b>Chapter 12: Provision of Regulatory Information</b>			
44	Regulatory accounts	Amendment	No
45	Data assurance requirements	New for RIIO-ED1	Yes
46	Regulatory instructions and guidance	New for RIIO-ED1	Yes
47	Environmental reporting	New for RIIO-ED1	Yes
48	Innovation strategy	New for RIIO-ED1	No
49	Electricity distribution losses management obligation and distribution losses	New for RIIO-ED1	Yes
50	Business plan commitment reporting	New for RIIO-ED1	Yes
51	Network asset indices methodology	New for RIIO-ED1	No

Current conditions proposed for complete removal			
33	Definitions for the Section B standard conditions	Removal	No
44a-49	Multiple RIG conditions: <ul style="list-style-type: none"> <li>▪ Network Outputs Regime</li> <li>▪ Distribution Losses Reporting Requirement</li> <li>▪ Low Carbon Networks Fund Reporting</li> <li>▪ Incentive scheme for quality of service</li> <li>▪ Incentive scheme for Transmission Connection Point Charges</li> <li>▪ Incentive schemes for innovation funding and Distributed Generation</li> <li>▪ Business Carbon Footprint Reporting</li> <li>▪ Reporting of Price Control Revenue Information</li> <li>▪ Reporting of Price control Cost Information</li> <li>▪ Modification of the RIGs in force under Chapter 4 and 12 and overarching RIG structure</li> </ul>	Removal	No
50a	Development and implementation of an EHV Distribution Charging Methodology	Removal	No

## Appendix 3 – feedback questionnaire

---

1.1. Consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. We would be keen to get your answers to the following questions:

1. Do you have any comments about the overall process, which was adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand, could it have been better written?
4. To what extent did the report's conclusions provide a balanced view?
5. To what extent did the report make reasoned recommendations for improvement?
6. Please add any further comments?

1.2. Please send your comments to:

**Andrew MacFaul**  
Consultation Co-ordinator  
Ofgem  
9 Millbank  
London  
SW1P 3GE  
andrew.macfaul@ofgem.gov.uk