

**To: All holders of an electricity distribution licence**

**NOTICE UNDER SECTION 11A(2) OF THE ELECTRICITY ACT 1989**

The Gas and Electricity Markets Authority (the Authority) hereby gives notice pursuant to section 11A(2) of the Electricity Act 1989 (the Act), as follows:

1. The Authority proposes to modify all electricity distribution licences granted or treated as granted under section 6(1)(c) of the Act by:

- a) amending certain existing standard conditions<sup>1</sup>
- b) inserting proposed new standard conditions
- c) deleting certain standard conditions.

A summary is set out in Schedule 1 of this notice.

2. The primary reason why the Authority proposes to make these licence modifications is to give effect to the policy set out in the Strategy decision for the RIIO-ED1 electricity distribution price control – Overview (Reference number: 26/13), referred to within this notice as “Strategy Decision”.<sup>2</sup>

3. The effect of the proposed modifications is first to implement that policy and secondly to update legislative references and improve clarity.

4. The proposed standard conditions to the electricity distribution licence are included in Schedule 2 of this notice.

5. Schedule 3 of this notice gives details about the reasons for and effects of the proposed modifications. Further details are set out in the following documents:

- a) RIIO-ED1: Informal consultation on licence drafting – Standard Licence Conditions<sup>3</sup>
- b) Strategy Decision.

6. Schedule 4 of this notice contains a link to our website, where we have published our responses to issues raised by stakeholders as part of RIIO-ED1 informal consultation on fast-track licence drafting, in respect of standard conditions.

7. Relevant licence holders for the purposes of the modifications referred to in paragraph 1 are all holders of an electricity distribution licence at the relevant time with standard conditions referred to in schedule 1 in effect in their licence.

8. A copy of the proposed modifications and other documents referred to in this notice are available on our website: [www.ofgem.gov.uk](http://www.ofgem.gov.uk).

9. Please send any comments about the proposed licence modifications on or before 29 April 2014 to [thomas.mackenzie@ofgem.gov.uk](mailto:thomas.mackenzie@ofgem.gov.uk) or by post to: Tom Mackenzie, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE.

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<sup>1</sup> An acronym “SLC” is also used in schedules to this notice where references are made to any particular standard condition.

<sup>2</sup> <https://www.ofgem.gov.uk/publications-and-updates/strategy-decision-riio-ed1-overview>

<sup>3</sup> <https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-informal-consultation-fast-track-licence-drafting-%E2%80%93-standard-licence-conditions>

10. All responses will normally be published on our website. However, if you do not wish your response to be made public, please clearly mark it as "not for publication". Please send your response in an electronic format, if possible, so it can be placed easily on our website.

11. If the Authority decides to make the proposed modifications, they will take effect from 1 April 2015.



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**Hannah Nixon**  
**Senior Partner, Smarter Grids and Governance (Distribution)**  
**Duly authorised on behalf of the**  
**Gas and Electricity Markets Authority**

**28 March 2014**

## Schedule 1 – Summary of standard conditions to be amended, added or removed

Condition Number	Condition's Name	Proposed change for RIIO-ED1
<b>Section A: Standard conditions for all Electricity Distributors</b>		
Chapter 1: Interpretation and Application		
1	Definitions for the standard conditions	Amendment to current condition
Chapter 4: Arrangements for the Provision of Services		
13C	Recovery of Reinforcement Costs for Relevant Customers	New condition for RIIO-ED1
14	Charges for Use of System and connection	Amendment to current condition
15A	Connection Policy and Connection Performance	Amendment to current condition
25A	Distributed Generation Connections Guide	Amendment to current condition
<b>Section B: Additional standard conditions for Electricity Distributors who are Distribution Services Providers</b>		
Chapter 12: Provision of Regulatory Information		
44	Regulatory Accounts	Amendment to current condition
45	Data Assurance requirements	New condition for RIIO-ED1
46	Regulatory Instructions and Guidance	New condition for RIIO-ED1
47	Environment Reporting	New condition for RIIO-ED1
48	The Innovation Strategy	New condition for RIIO-ED1
49	Electricity Distribution Losses Management Obligation and Distribution Losses Strategy	New condition for RIIO-ED1
50	Business Plan Commitment Reporting	New condition for RIIO-ED1
51	Network Asset Indices Methodology	New condition for RIIO-ED1

<b>Current conditions proposed for complete removal</b>		
33	Definitions for the Section B standard conditions	Removal
44A	Network Outputs Regime	Removal
44B	Distribution Losses Reporting Requirement	Removal
44C	Low Carbon Networks Fund Reporting	Removal
45	Incentive scheme for quality of service	Removal
45A	Incentive scheme for Transmission Connection Point Charges	Removal
46	Incentive schemes for innovation funding and Distributed Generation	Removal
46A	Business Carbon Footprint Reporting	Removal
47	Reporting of Price Control Revenue Information	Removal
48	Reporting of Price Control Cost Information	Removal
49	Modification of RIGs in force under Chapters 4 and 12 and overarching RIGs structure	Removal

## **Schedule 2: Proposed standard conditions to the electricity distribution licences**

A copy of the proposed modifications to the standard conditions can be found on our website at:

<https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-proposed-modifications-standard-conditions-electricity-distribution-licences>

## **Schedule 3: Reasons and effect of proposed modifications to the standard conditions of the electricity distribution licences**

### **Section A: Standard conditions for all Electricity Distributors**

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

Type of change: Amendment

1.1. 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.

1.2. The reason for the proposed modifications is to:

- introduce new terms and their definitions needed for the proposed modifications referred to below
- remove redundant defined terms and their definitions no longer required because of the proposed modifications referred to below
- amend some current defined terms and their definitions
- to correct references to outdated legislation and cross-references to other licence conditions consequent to the proposed modifications referred to below.

1.3. 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 standard conditions as proposed to be modified.

#### **SLC 13C. Recovery of Reinforcement Costs for Relevant Customers**

Type of change: New condition

1.4. The reason for this proposed new condition is to implement our Strategy Decision, which requires that reinforcement triggered by existing domestic and small business (profile class 3 and 4) customers, is recovered through distribution use of system (DUoS) charges. In our Strategy Decision, we stated that we would make an exception for clearly identifiable equipment which poses significant network issues. We established a working group with distribution network operators (DNOs), independent distribution network operators (IDNOs) and distributed generation (DG) parties to help work through the detail of implementing our decision on reinforcement costs, including drafting revisions to the Common Connection Charging Methodology (CCCM). Following discussion with this working group and separately with licensees, we propose that electricity distributors clearly set out standards that devices must meet. If customers install devices that do not meet these standards then DNOs will be able to charge specific customers for mitigating the impact of these devices.

1.5. The effect of this condition is only to permit the recovery of reinforcement costs through connection charges on domestic and small business customers where the reinforcement is necessitated by the installation of generation equipment with a rated

output greater than 16 amperes per phase or equipment which the licensee has a reasonable expectation will fail to meet certain standards specified in DCUSA. Rather than use profile classes to define small business customers, we have used metering type as we considered metering to be a more tangible differentiator. This condition will be implemented only if this policy is not given effect through changes to CCCM.

#### **SLC 14. Charges for Use of System and connection**

Type of change: Amendment

1.6. 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>4</sup> We are also proposing changes to paragraph 14.16 to allow IDNOs and DNOs operating out of area to earn a margin on connection activities.

1.7. The effect of the proposed changes is 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 the licensee to do so. 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

1.8. We are proposing changes to this condition to move the provisions in respect of the Authority's ability to issue regulatory instructions and guidance to SLC 46 (Regulatory Instructions and Guidance) and move the distributed generation terms and its definition to SLC 1. We also intend to remove references to issuing the DG standards directions and to amalgamate the process for amending the DG standards into one section (Part I).

1.9. The effect of the changes is to ensure that the condition remains applicable for the RIIO-ED1 price control period and improves clarity of the condition.

#### **SLC 25A. Distributed Generation Connections Guide**

Type of change: Amendment

Current name: Distributed Generation: Connections Guide and Information Strategy

1.10. The reason for this proposed condition is to ensure that the licensee makes available to the public information relating to the connection of a DG to the distribution network. This is to assist anyone who might wish to enter into arrangements with the licensee.

1.11. We propose to remove all obligations in the current licence condition that relate to licensees publishing the DG Information Strategy. The reason for this change is that new

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<sup>4</sup> Decision in relation to measures to mitigate network charging volatility arising from the price control settlement (October 2012): <https://www.ofgem.gov.uk/ofgem-publications/50572/cvdecision.pdf>

obligations in this area are being introduced as part of RIIO-ED1 through CRC 2E (Incentive on Connection Engagement).

1.12. The effect of the changes is to remove outdated obligations on licensees that have been superseded by new requirements elsewhere in the licence. The change does not alter current requirements 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 the licence

1.13. The reason for the proposed removal of this condition is that the majority of the definitions in this condition will become redundant as they 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.

1.14. The effect is to remove a condition that, as a result of other changes to the licence, will become redundant.

### **SLC 44. Regulatory Accounts**

Type of change: Amendment

1.15. We propose to amend this condition to:

- clarify that any Companies Act 2006 allowed applicable accounting framework may be used, provided that the Regulatory Accounts (whether group or individual accounts) are 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. This is because there is a requirement in this condition to make them available on the licensee's website and provide them, free of charge, to anyone who requests them
- make any necessary incidental or consequential changes to the condition, including clarifying definitions.

1.16. The reason for these proposed changes is to ensure the condition remains up to date and correctly refers to the latest relevant legislation, regulations and requirements.



1.17. 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
- 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 the licence

1.18. We propose to completely remove the standard conditions listed in Table 1 below because 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.

1.19. 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 1: Standard conditions to be removed from the licence**

<b>Current Number</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 Chapters 4 and 12 and overarching RIGs structure

## **SLC 45. Data Assurance requirements**

Type of change: New condition

1.20. 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.

1.21. The effect is to create and provide governance for the Data Assurance Guidance (DAG). The DAG is an associated document to the licence.

## **SLC 46. Regulatory Instructions and Guidance**

Type of change: New condition

1.22. The reason for this proposed new condition is that we need to collect price control review information from the DNOs on revenue, expenditure and outputs. This information is used to monitor licensees' performance and, where appropriate, make adjustments to revenue allowances (eg through financial incentives that are part of the price control). We use the RIGs to collect this information.

1.23. The RIGs is an associated document to the licence. RIGs is the collective term for the group of documents that includes:

- instructions and guidance on what data the licensees must report
- how they should report that data
- the templates they must complete.

1.24. 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.

1.25. 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 licensees will need to provide.

## **SLC 47. Environment Reporting**

Type of change: New condition

1.26. 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.

1.27. The effect of this condition is to ensure that the licensee undertakes its environmental reporting in accordance with the provisions set out in the ERGD.

## **SLC 48. The Innovation Strategy**

Type of change: New condition

1.28. The reason for this proposed new condition is to give effect to the policy set out in the Strategy Decision and stipulating that the licensee should have an Innovation Strategy and ensure that it is kept up to date.

1.29. The effect of this condition is 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

1.30. The reason for proposing this new condition is to provide a way to ensure that electricity distribution losses are as low as is reasonably possible and to ensure that licensees establish and implement strategies to this effect.

1.31. The effect of this condition is to place an obligation on the licensee to ensure that electricity distribution losses, including losses from the relevant theft of electricity are as low as reasonably possible. It is also to place an obligation on the licensee to maintain and act in accordance with its distribution losses strategy.

1.32. The condition also creates and provides governance for the Distribution Losses Strategy Guidance.

## **SLC 50. Business Plan Commitment Reporting**

Type of change: New condition

1.33. The reason for proposing this new condition is to ensure that the licensee is accountable for commitments made in its RIIO-ED1 business plan (as at July 2013 for WPD licensees and as at March 2014 for all other Distribution Services Providers) which are not the subject of specific licence conditions.

1.34. 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.

## **SLC 51. Network Asset Indices Methodology**

Type of change: New condition

1.35. The reason for this proposed new condition is to ensure that the licensee is able to report on its network asset secondary deliverables in a manner which is consistent with best industry practice.

1.36. 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 it in its own methodology
- keep under review and, where necessary, modify the common network asset methodology to ensure that it remains fit for purpose.

## **Schedule 4: Response to issues raised as part of RIIO-ED1: Informal consultation on fast-track licence drafting – Standard Licence Conditions**

1.37. On 10 January 2014, we published our informal consultation on the proposed changes to the standard conditions.<sup>5</sup> Our response to the issues raised by stakeholders responding to this consultation can be found on our website at:

<https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-proposed-modifications-standard-conditions-electricity-distribution-licences>

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<sup>5</sup> <https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-informal-consultation-fast-track-licence-drafting-%E2%80%93-standard-licence-conditions>