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for energy consumers

Electricity Distribution Licensees
and other interested parties

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Date: 24 May 2018

Dear Colleague,

Extension of Derogation from Standard Licence Condition 24 (Distribution System planning standard and quality of performance reporting) of the Electricity Distribution Licence

Engineering Recommendation P2/6 is the current distribution network planning standard. It comes under the governance of the Distribution Code Review Panel (DCRP). The Distribution Network Operators (DNOs) have a licence obligation¹ to plan and develop their systems in accordance with P2/6.

On 27 March 2015 we issued an extension of the previous derogation² relieving distribution licensees of this obligation under specific circumstances. The derogation affected those parts of the distribution system where the Group Demand is up to 60MW and when specific conditions were satisfied.

The derogation extension was effective until 31 March 2018. We have received several requests to extend the derogation further. On 13 March 2018 UK Power Networks requested that the derogation be extended until 31 March 2020. On 21 March 2018 Northern Powergrid requested that the derogation be extended until 31 March 2019. On 22 March 2018 Western Power Distribution requested that the derogation be extended until 31 March 2019. On 27 March 2018 Electricity North West requested that the derogation be extended until 31 March 2020. The requested extensions are to allow for clarity as to when Engineering Recommendation P2/7 may come into force, and whether or not this derogation will be required thereafter.

This letter sets out our decision to grant the requested extension to the time-limited derogation, ending 31 March 2019. The Direction published alongside this decision letter gives effect to this decision.

Background

The purpose of the initial derogation issued in March 2007 was to simplify arrangements relating to the management of compliance with P2/6 table 1 in respect of those parts of the distribution system where the Group Demand was up to 60MW and when specific conditions set out in that direction were satisfied. This was achieved by allowing the licensees to self-derogate from SLC 24.1 on parts of the distribution system where Group Demand was up to

¹ Contained within Standard Licence Condition (SLC) 24.1(a) of the Electricity Distribution Licence.

² <https://www.ofgem.gov.uk/publications-and-updates/decision-and-direction-extension-er-p26-derogation-slc-24-electricity-distribution-licence-where-demand-less-60mw>

60MW when specific conditions were satisfied. After consultation³, we acknowledged that compliance with P2/6 could be difficult to maintain on all parts of the licensee's distribution system as the licensee did not have certainty about, or control over, customers' actions. We considered that it is generally in the wider interests of customers that electricity distribution licensees use their best commercial and engineering judgment when considering forecast demand and making decisions in relation to expenditure on measures to reinforce a distribution system to ensure P2/6 compliance.

In March 2010 we consulted⁴ on our proposal to extend this derogation for a further five year period, and received no objections. None of the respondents considered there to be any evidence that the arrangements had caused any deterioration of service to customers. We subsequently decided to extend the period of the derogation until 31 March 2015⁵.

On 27 March 2015 we again extended the period of the derogation until 31 March 2018 as in 2015 the industry began a wider review of the P2 Engineering Recommendation. The issue of smaller demand groups and how to deal with security arrangements was to be included in that review. It was anticipated that this review would be complete prior to the expiry of this derogation, and that any additional action under this derogation would be assessed at that stage. The industry has concluded its review of P2/6, and an industry consultation on the proposed modification to Engineering Recommendation P2, replacing P2/6 with P2/7, closed on 12 February 2018⁶. Table 1 of P2/6, to which the derogation applied, remains in the proposed P2/7. It is therefore as yet unclear as to whether or not P2/7 has addressed the issues that DNOs faced in planning and developing their systems in accordance with P2/6 table 1 in respect of those parts of the distribution system where the Group Demand was up to 60MW.

There is also still no evidence that this derogation has had any adverse impact on supply reliability to customers. DNOs are incentivised to address security and security of supply via the penalties or rewards under the Interruption Incentive Scheme (IIS), the load index output measures and the Broad Measure of Customer Satisfaction (BMCS). Further, under this derogation, DNOs are required to keep records of all self-derogations, recording non-compliances, the actions required to remedy the non-compliances and to monitor these actions to achieve timely completion. As part of our assessment in extending this derogation further, we have reviewed these records from UK Power Networks, Northern Powergrid, and Western Power Distribution, and have found no issues.

Our Decision

We have considered the request for an extension of the existing derogation, and supporting information from DNOs, in accordance with our principal objective and general duties and in light of the information currently available to us. We have considered in particular those factors set out in our '[Guidance on technical derogation requests](#)'. We note:

- that compliance with P2/6 can be difficult to maintain on all parts of the licensee's distribution system as the licensee's do not have certainty about, or control over, customers' actions. This derogation reduces the regulatory burden on licensee's by allowing them to self-derogate those parts of the distribution system where the Group Demand is up to 60MW and when specific conditions were satisfied;
- that we have reviewed the records of instances of self-derogation under this derogation from UK Power Networks, Northern Powergrid, and Western Power Distribution, and have identified no adverse impact of the derogation;

³ <https://www.ofgem.gov.uk/publications-and-updates/open-letter-consultation-electricity-distribution-network-planning-engineering-recommendation-p26>

⁴ <https://www.ofgem.gov.uk/publications-and-updates/open-letter-consultation-standard-condition-24-distribution-system-planning-standard-and-quality-performance-reporting-electricity-distribution-licence>

⁵ <https://www.ofgem.gov.uk/publications-and-updates/derogation-standard-condition-24-distribution-system-planning-standard-and-quality-performance-reporting-of-electricity-distribution-licence>

⁶ <http://www.dcode.org.uk/consultations/closed-consultations/>

- that we consider DNOs to be incentivised to address security and security of supply via the penalties or rewards under the Interruption Incentive Scheme (IIS), the load index output measures and the Broad Measure of Customer Satisfaction (BMCS); and,
- that the requested extension of the existing derogation is to allow for clarity as to when P2/7 may come into force, and whether or not this derogation will be required thereafter.

We consider that a one year extension allows sufficient time for the implementation of P2/7, and to evaluate whether or not this derogation is required thereafter. Accordingly, we have decided to grant a further extension to the derogation to all licensees from complying with SLC 24.1, "Distribution system planning standard and quality of performance reporting", in respect of those parts of the distribution system where the group demand is up to 60MW and when specific circumstances set out in the Direction are satisfied.

We have decided to extend the period of the derogation until 31 March 2019, thereafter this derogation shall terminate automatically without any action on our part. We may revoke or amend the derogation in writing at any time upon reasonable notice.

Should a supply interruption occur, the derogation granted does not provide an exemption from either the Quality of Supply Guaranteed Standards, the Interruptions Incentive Scheme or the Broader Measure of Customer Satisfaction Incentive.

I attach a copy of our Direction for the purposes of this derogation.

The granting of this time-limited derogation extension sets no precedent for any future derogation requests and every such request will be assessed on its own merits and particular circumstances.

Published alongside this letter is a copy of the Direction for the purpose of the derogation.

This letter constitutes notice for the purposes of section 49A of the Electricity Act 1989 in relation to the Direction.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'P. Bingham', written in a cursive style.

Peter Bingham
Chief Engineer, Systems and Networks
Signed for and on behalf of the Authority