Making a positive difference
for energy consumers

Distribution Network Operators
and other interested parties

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**Minded to approve derogations pursuant to Standard Licence Conditions (SLC) 13A Part E and 13B Part E of the Electricity Distribution Licence and Schedule 2A Clause 19.3 and Schedule 2B 43.3 of the Distribution Connections and Use of Systems Agreement (DCUSA)**

This letter covers a request for derogations from all electricity Distribution Network Operators (DNOs) with a Use of System (UoS) charging methodology approved by the Authority.[1]

## Background

DNOs recover their allowed revenue from customers through distribution use of system (DUoS) charges. The methodologies for calculating these charges are the Extra High Voltage Distribution Charging Methodology (EDCM) for the large, industrial customers connected at the highest voltages, and the Common Distribution Charging Methodology (CDCM) for the remaining customers. The CDCM and EDCM are detailed in the DCUSA document.

DNOs use the distribution charging methodologies to calculate all-the-way (ATW) tariffs that end users pay towards the cost of the distribution system. DNOs charge Licensed DNOs (LDNOs) LDNO tariffs that contain discount percentages applied to ATW tariffs to reflect the fact that LDNOs are responsible for the 'last mile' of the distribution network to the end user. The ATW and LDNO tariff structures are dependent on the voltage of connection, which can be low voltage (LV), high voltage (HV) or extra-high voltage (EHV) for demand and generation users.

In a letter dated 18 April 2019, Scottish and Southern Electricity Networks (SSEN) requested an aggregated derogation from the Authority for all DNOs. SSEN submitted the request for a derogation due to an error that originated in a corrupt ancillary database that contained inputs for the CDCM model. In the database submitted to the Nominated Calculation Agent, the EHV-connected network outside of SSEN's distribution services area was submitted as HV when calculating the 'HV split' percentage.[2]

The HV split percentage used as an input in the CDCM is an average across all DNOs and has a consequential impact on the EDCM. Correcting the SSEN error increased the HV split percentage (by 8.8% to 79.5%) affecting the published DUoS tariffs for all DNOs for the 2020/21 charging year.

[1] References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work.
[2] A typical proportion of the HV network which is provided by a DNO in the case of HV loads supplied through an HV-connected embedded network.

In accordance with SLC13, each licensee must at all times implement and comply with the CDCM and EDCM. The inputs in the charging models are used to calculate DUoS tariffs that are published in the annexes of charging statements. As a result of this error, for all DNOs, some DUoS tariffs for 2020/21 have been calculated incorrectly so that all DNOs will be not be in a position to comply with SLC13.

## Request for derogations and our assessment

We recognise that SSEN has informed us of the error in the HV split percentage that affects all DNOs and has taken steps to communicate and assess the impact on stakeholders. However, we consider that SSEN cannot make a request for derogations on behalf of all DNOs as each DNO is not in a position to comply with its licence conditions.

We are minded-to approve SSEN's request for a derogation.

To minimise disruption to customers, SSEN proposes to retain the existing published DUoS ATW demand and generation tariffs, and the LDNO LV demand and LDNO generation tariffs for 2020/21. These tariffs will remain in place based on the uncorrected HV split percentage as the error had a minimal impact on these tariffs. This means that all tariffs for end customers and some LDNO tariffs are unaffected by the identification of the error.

SSEN has stated in its derogation request letter that it intends to re-publish LDNO HV demand tariffs based on the corrected HV split percentage. This is because the input error in the charging models had the greatest impact on LDNO HV demand tariffs and the UoS revenue recovered by LDNOs.

Following a review of the derogation request related to this error, we consider that each DNO is not able to properly implement the requirements of their charging statements in accordance with the CDCM and EDCM. They are therefore not able to comply with the requirements of SLC13A.4 and 13B.4 of their distribution licence conditions and will consequently require a derogation under SLCs 13A and 13B Part E, specifically 13A.4 (Part A) and 13B.4 (Part A). In addition, each DNO will require relief from DCUSA Schedule 2A 19.3 (distributor to supplier) and DCUSA Schedule 2B 43.3 (distributor to distributor) for charging year 2020/21.

With respect to SLC 13A and 13B Part E, condition 13A.4 and 13B.4 set out that the licensee must at all times implement and comply with the CDCM and EDCM respectively. We consider that the tariffs not amended by the corrected HV split percentage in each DNO's charging models mean that each DNO will be pricing outside of the CDCM and EDCM for some tariffs.

DCUSA Schedule 2A 19.3 and 2B 43.3 place obligations on DNOs to offer an appropriate adjustment of charges if charges have not been calculated strictly in accordance with the relevant charging statement. Derogations from these obligations would allow DNOs to retain published ATW tariffs and LDNO LV demand and LDNO generation tariffs for 2020/21.

## Next steps

As a next step, we require an **acknowledgement and confirmation** from each licensee that is seeking a derogation from at all times to implement and comply with elements of the CDCM and EDCM as set out in **SLC 13A and 13B Part E**, specifically 13A.4 (Part A) and 13B.4 (Part A) and **DCUSA Schedule 2A 19.3** (distributor to supplier) and **DCUSA Schedule 2B 43.3** (distributor to distributor) for 2020/21.

Such acknowledgement should be sent to: FutureChargingandAccess@ofgem.gov.uk by **9 September 2019.** If you have any questions in relation to this letter, please use the same email address or call 020 3263 9906.

We would also welcome views from any interested parties that consider they may be materially affected by the issues covered in this letter.

Yours faithfully,

**Tim Aldridge**
Senior Manager, Systems and Networks