



Making a positive difference
for energy consumers

Company Secretary
Northern Powergrid
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Date: 31 October 2017

Dear Company Secretary,

Derogation pursuant to Standard Licence Condition (SLC) 13B Part E of the Electricity Distribution Licence

Background and summary

The distribution network in Great Britain consists of 14 distribution service areas (DSAs), each operated by a distribution network operator (DNO). There are some smaller networks within these DSAs, which are owned by licensed distribution network operators (LDNOs). An LDNO can be either an independent distribution network operator (IDNO) or a DNO operating outside of its own DSA.

DNOs recover their allowed revenue from customers through distribution use of system (DUoS) charges. The methodology for calculating these charges for the large, industrial customers connected at the highest voltages is the Extra High Voltage Distribution Charging Methodology (EDCM). The EDCM is detailed in the Distribution Connection and Use of System Agreement (DCUSA) document.

In a letter dated 13 October 2017, you set out the background to an apparent error in the logic of the EDCM under particular circumstances relating to customers connected to LDNOs. You explained that the error is specific to cases where more than one customer is connected at 132kV to an LDNO which is itself connected at 132kV to the host DNO.

You are aware of a case of two customers that are due to connect, in November 2017, to an LDNO embedded within the Northern Powergrid (Yorkshire) plc distribution system. In this specific case, the correct application of the EDCM would result in an illogical outcome - where the LDNO would be charged twice for some assets (once on a sole use basis where the two customers between them are attributed the full cost of the assets; and again on a shared basis where the two customers share the cost of these assets among the wider customer base).

To avoid this double-charging outcome, so that assets are only charged on a sole use basis, you have requested a derogation for Northern Powergrid (Yorkshire), to price outside of the EDCM, specifically in terms of the customer category under DCUSA Schedule 18, Clause 24.8. You have requested that this derogation commences immediately and continues until such time as the Authority either: decides to reject DCUSA Change Proposal (DCP) 305; or, if it decides to approve the change, the change is implemented.

Based on the information submitted by the licensee, the Authority grants the licensee a derogation from the requirements of Schedule 18, Clause 24.8 of the DCUSA subject to the conditions set out in the direction below. This letter gives consent for your requested derogation.

Explanation of identified error

You explained that the error of logic applies through a series of steps within the EDCM. Within these steps, under DCUSA Schedule 18, Clause 24.8, the DNO is required to set the customer category of each LDNO-connected end customer based on the network level of the DNO/LDNO boundary, and whether or not higher network levels are used by the LDNO.

In this instance, the customer category allocation results charges being levied in respect of some assets as both sole use and shared assets, i.e. making a contribution twice for the same assets. In contrast, in the equivalent situation, but with just a single customer connection, the single customer would be charged for the same assets on a sole use basis only.

Impact of the error

You have shared, on a confidential basis, the impact of the error on the two customers in question. If we did not consent to the derogation, the customers' use of system charges would be materially higher as a result of having to contribute twice to some assets. As charges have been set for 2017-18 and 2018-19, there would be no immediate impact on other EDCM customers. You have provided illustrative data to indicate the impact on the wider customer base of consenting to the derogation would be immaterial beyond this date.

Northern Powergrid's proposed approach

Your proposed approach to address the error is to seek a derogation from Clause 24.8 of DCUSA Schedule 18. Instead of following Clause 24.8, you would set the customer category to the Point of Common Coupling. This would bring equivalence to the application of the EDCM with a single customer: the two customers would only be charged based on their contribution to the costs of the sole use assets, and would not also be charged for the same assets on a shared basis.

Since you identified this error, you have raised DCP 305 – *LDNO Boundary Level Definitions in the EDCM*. The proposal seeks to implement changes to Schedules 17 and 18 of DCUSA (relating to the EDCM) as an enduring solution such that no future derogations will be required on this issue. This change proposal has yet to be issued for consultation, so were it to be approved and implemented, it would not be in place in time to address the issue for the two customers in question.

Decision

We have considered your request in accordance with our principal objective and statutory duties. We have decided to grant the requested derogation.

We note that you have sought an enduring solution to this error through raising DCP305. We have made this decision without prejudice to the Authority's consideration of DCP305 when it reaches us for decision.

We would encourage other DNOs to contact us if they are aware of any equivalent circumstances on their own networks, which may require a derogation to avoid double charging.

Direction

The Authority hereby directs:

- Pursuant to paragraph 13B.14 of SLC13B Part E, that Northern Powergrid (Yorkshire) plc may price outside of the EDCM with immediate effect until such time as the Authority either: decides to reject DCUSA Change Proposal (DCP) 305; or, if it decides to approve the change, until the change is implemented. This derogation is specific to the customer category under DCUSA Schedule 18, Clause 24.8 and is issued to avoid double-charging of the same assets to certain customers.

This letter constitutes the reasons for our decision under section 49A of the Electricity Act 1989.

If you have any questions concerning this letter please contact my colleague Tim Aldridge (tim.aldridge@ofgem.gov.uk / 020 7901 7350).

Yours faithfully,

Chris Brown
Head of Core and Emerging Policy
For and on behalf of the Authority