

To generators, distribution and
transmission network operators,
suppliers and other interested
parties

Direct Dial: 020 7901 7030
Email: Iain.morgan@ofgem.gov.uk

Date: 6 November 2014

**Decision to approve fulfilment of condition 3 set pursuant to standard licence
condition (SLC) 50A.21 of the electricity distribution licence**

This letter relates to the extra high voltage distribution charging methodology (EDCM). We published our decision on this "the decision" on 6 September 2011. This was in response to the DNO submission on 1 April 2011.¹ The Decision approved the EDCM for calculating import (demand) charges only, subject to three conditions set pursuant to SLC 50A.21. This letter relates to the third and remaining condition which sought a report on the issues identified below.

On 1 June 2012 the DNOs, through the Energy Networks Association, submitted a report to the Authority² (the "Report") reporting on their investigations into condition 3 and their proposals.

Decision to Approve conditions 3 set pursuant to SLC 50A.21

Condition 3

When we consulted in May 2011 ahead of the decision, we identified two issues in relation to the calculation of network use factors (NUFs). Firstly, whether NUFs should be calculated on the basis of an intact network, or on the basis of a post-fault network (i.e. under contingency conditions). Secondly, whether the costs of any "spare" capacity should be recovered from customers that use those assets, or be spread amongst all customers. These issues form the basis of condition 3 of our decision which is as follows:

"The condition we are placing in relation to this issue requires the DNOs to conduct further investigations into the issue, including an open consultation with relevant stakeholders and to provide a report to us on the issue by 1 June 2012. The report must:

- Examine the circumstances in which it may or may not be appropriate to socialise spare capacity costs and the different options which could be used to do this.*
- Assess the materiality of the impact on customers' charges and whether these can be justified.*
- Provide a well-reasoned recommendation to change the methodology or a well reasoned report saying why no change is necessary."*

We also said that "we expect the DNOs to consider whether the use of default NUFs in generation-dominated sites is still appropriate."

¹ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=679&refer=Networks/ElecDist/Policy/DistChrgs>

² <https://www.ofgem.gov.uk/ofgem-publications/43900/edcm-dq-report-1june2012.pdf>

The Report provides arguments suggesting that the NUFs should be calculated under 'intact' network conditions and that spare capacity should be defined as the difference between the security of supply capacity and the rating of the asset. The Report also provides a well-reasoned explanation as to why they believe the use of default NUFs in generator dominated sites is still appropriate.

Consultation

The DNOs published a consultation document describing the draft proposals on 20 April 2012. Two responses were received, both in agreement that the draft proposals were sufficient to meet the requirements of Condition 3 and that NUFs for generation-dominated sites should be set to default values (equal to the collar). They did, however, raise concerns about the proposed implementation date for the proposed changes.

Approval

We consider that Condition 3 has been met through the provision of the report and that the remaining work resulting from Condition 3 is best taken forward within the DCUSA open governance. To this end Distribution Change Proposal (DCP 138) has been raised and a working group assigned to take the proposed changes forward including work to understand the up to date impacts and consultation to consider existing views. We met with members of the DCP138 working group on 22 May 2014 and have agreed that we consider that Condition 3 has been fulfilled subject to their work. I confirmed this at DCMF and we are confirming this through this letter.

Changes to the EDCM as a consequence of our decision

As EDCM is now applied, any changes to the methodology need to be implemented through the DCUSA open governance. To this end Distribution Change Proposal (DCP) 138 has been raised and a working group assigned to take the proposed changes forward, including impact analyses and consultation. If the working group feels that the proposals help to better meet the relevant objectives of the DCUSA and the charging methodology, it shall prepare a report for consideration by the DCUSA Panel and Ofgem.

Yours faithfully,

Iain Morgan
Senior Regulatory Economist, Network Regulation Policy