

Rachel Fletcher
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Date

02 December 2009

Dear Rachel

Electricity distribution structure of charge: the common distribution charging methodology at lower voltages. Ref: 140/09

This letter is in relation to the conditions listed in your decision document from 20 November 2009, for the approval of the CDCM. The CMG felt it would be beneficial to give Ofgem an early indication on how we would plan to meet the conditions, as well as communicating the likely process and timetables that we plan to follow.

Conditions for approval

Your document lists in Table 1 the conditional approvals under the CDCM. Below we address each in turn:

1 Generation Charging in generation dominated areas

We note that the timescale for meeting this condition is by 1 September 2010. We plan to address this condition under Workstream B of the CDCM, and will start the modeling work in the new year (2010) in parallel with the work done on the EDCM methodology.

2 Network unavailability rebate payments

We plan to incorporate the proposed words into the CDCM methodology document, which will be embedded into the DCUSA schedule and be subject to open governance.

3 IDNO charging – generation tariffs

DNOs agree that it is more cost reflective not to charge the fixed charge element of end user generation to the LDNO tariff, as this charge is for the recovery of costs related to service assets which are not provided by the DNO where an IDNO does the ‘final mile’. This means that the discount to apply to generation portfolio tariffs will be: 100% discount for the fixed charge element and 0% discount for the unit rate. This proposal has been discussed with IDNOs at the IDNO/DNO groups.

We plan to incorporate words in the CDCM methodology submitted to common governance to clarify this approach, and the models that will be used to issue the 2010/11 indicative charges will

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incorporate this change. For information, the models sent to Ofgem to help with the publishing of illustrative charges together with the DPCR5 final proposals already included this change.

4 IDNO input data

We plan to remove the reference to FBPQ data in the CDCM methodology submitted to common governance, and substitute it with a reference to data that DNO considers appropriately represents the forecast of net capital expenditure.

5 IDNO charging – HV split

The issue of “HV split” for IDNO charging is one about data population which would allow DNOs to determine the correct apportionment of HV costs to HV end customers connected to an HV IDNO. The DNOs are working together with IDNOs in order to come to a representative result. Below is our proposed approach and timeline:

- Wednesday 18/11: Email from Andrew Neves sent to IDNOs and DNOs requesting information about HV networks.
- Tuesday 24/11. Discussed this timeline with IDNOs at the IDNO/DNO meeting. Discussed also the issue of using a national average, which the majority of DNOs supported given the scarcity of data at the individual licensee level. Some DNOs still express concern about the usage of a national average, and this issue is still being discussed.
- Monday 30/11. Deadline for IDNOs and DNOs to provide the data.
- Thursday 26/11 and Thursday 3/12: WSB to clarify the methodology to follow with the data available, including the possibility of using a national average.
- Under this approach, results should be produced by week commencing on 7/12. IDNOs to be informed of the results as soon as they are available (week commencing 7/12).

Version control and re-submission of the CDCM to cover the conditions for approval

A version control table has now been incorporated into the CDCM. Version “0” of the methodology is the one submitted to Ofgem in August 2009. Each of the changes to the methodology statement identified above will be identified separately in this table, in sequential order (0.1, 0.2, 0.3....) and kept of track changes in order to be easily visible.

This change tracked version of the methodology will be submitted to Ofgem on 11th of December, together with the consequential changes to the CDCM model, for confirmation that the conditions have been met. Once confirmation has been received, version “1” of the CDCM will be produced (accepting all changes proposed), and this will be submitted to the DCUSA as a change proposal, to be incorporated into the DCUSA schedule and start the regime of open governance. Our target for the DCUSA change proposal is to incorporate it into the DCUSA’s February release. We understand



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that the schedule to incorporate the CDCM into the DCUSA will be available early in the new year, with the CDCM obligations coming into force from 1 April 2010.

Areas for further development

IDNO charging – allocation of cost to HV connected IDNOs with LV end users

The decision document highlights this issue as one requiring prompt attention from DNOs. We plan to do modeling work on this area early in the new year, and bring a change proposal under the open governance process (sponsored by one of the DNOs but with modeling work done by the joint group) as soon as practicable.

Additional change

Voltage of connection / voltage of supply

As stated in the CMG joint response to the CDCM consultation, we believe it would bring greater clarity to change the term “voltage of supply” in the CDCM methodology to “entry point” or “exit point”, in line with the terminology in the distribution licence and the DCUSA. This will be one of the changes identified in the version control table and the tracked changed document submitted to Ofgem on 11 December.

We trust these comments are helpful. Please do not hesitate to contact the CMG should you have any further queries.

Yours sincerely,

The CMG, on behalf of:

**CE Electric, Central Networks, EDF Energy Networks, Electricity North West,
SP Energy Networks, SSE Power Distribution and Western Power Distribution.**

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