

Structure of Electricity Distribution Charges Implementation Steering Group

Terms of Reference – November 2004

This document is a revised version of the ISG terms of reference published in October 2003, available from the Ofgem website at <http://www.ofgem.gov.uk/ofgem/work/index.jsp?section=/areasofwork/distributioncharges>. The October 2003 terms of reference covered the role of the ISG in considering the steps necessary to implement changes to the distribution charging regime taking effect on 1 April 2005.

These revised terms of reference cover the role of the group in implementation of changes to take effect beyond April 2005.

1. Purpose

- 1.1 The purpose of the group from 2005 onwards is to facilitate further discussion about the commercial, regulatory and technical aspects of Ofgem's proposals for the longer term electricity distribution charging regime, and to assist Ofgem in ensuring that the changes are implemented in a robust, efficient and, where appropriate, consistent manner across all Distribution Network Operators (DNOs) and Independent Distribution Network Operators (IDNOs).
- 1.2 The group will provide a forum for discussion but will not have formal decision making powers and will not preclude full consultation on the issues.

2. Background

- 2.1 The introduction of revised wholesale trading arrangements, revised transmission charging arrangements, the ongoing development of competition in electricity supply, generation, connections and metering and the anticipated growth in distributed generation have resulted in continuing evolution of the high-level operating conditions of the GB electricity industry. EU Directives on the internal market and on renewables also change the legal framework. As a result of these continuing structural changes, Ofgem and the industry have been working for some time on a project to review the structure of charges levied by electricity distribution companies.
- 2.2 A number of changes will take effect on 1 April 2005 to coincide with the beginning of the new price control period, including the introduction of approved connection and use of system charging methodologies and a common connection boundary for demand and generation connections. Further changes will be made from 2005 onwards to implement a long term distribution charging framework.

3. Terms of Reference

- 3.1 The group will steer and report on work programmes necessary across the industry to develop and implement a long term charging framework. It will assist Ofgem by addressing matters including:

- long term high level aims for distribution charging;
- consistent treatment for demand and generation users;
- consideration of the development of charging models;
- assessment of timescales and project milestones;
- transitional issues (between the pre-2005 and interim regimes, and the interim and long term regimes);
- consideration of any issues arising from the implementation of the interim charging arrangements;
- assessment of the costs and benefits of new or revised charging arrangements;
- development of the form and content of the use of system and connection charging methodology statements and the use of system charging statements in line with the licence objectives/requirements;
- consideration of issues arising from the increase in distributed generation; and
- monitoring of any further necessary changes to the regulatory framework (eg E(CC) Regulations, standard licence conditions and industry agreements).

- 3.2 The group should have regard to the structure of electricity transmission charging.
- 3.3 The group should have regard to other industry groups that have an interest in the structure of electricity distribution charges, including any new groups or structures established as part of the current review of distribution commercial governance, or groups associated with electricity transmission or gas distribution.
- 3.4 The group will seek to reach a reasonable level of consensus on the approach to implementation, including making recommendations for scheduling of work.
- 3.5 The group may recommend the formation of specialised sub-groups to take forward detailed implementation issues, or co opt specialists (such as academics) onto the group, where this is found to be necessary.

4. Principles

- 4.1 The group will provide a forum for detailed discussion but will not have formal decision making powers and will not preclude a full consultation of the issues.
- 4.2 It is intended that the group will conduct itself in an open and transparent manner.
- 4.3 Group members will be expected to:
- a. provide expert advice based on their knowledge and experience; and
 - b. provide a conduit for the views of the communities to which they are affiliated.
- 4.4 The commitment of group members is vital to achieving results. Members will be encouraged to submit papers to the steering group as required highlighting issues and suggesting solutions to problems.

- 4.5 Group continuity will be integral to its success, and membership should remain as constant as possible, with alternatives attending only in exceptional circumstances.

5. Membership

- 5.1 The group will be chaired by Ofgem, and will be made up of volunteers drawn from a cross-section of industry sectors as follows:
- 1 representative of each DNO group (7 in total)
 - 1 representative of each IDNO
 - 3 supplier representatives
 - 3 generator representatives
 - 2 customer representatives
- 5.2 Further specialists (such as academics) may be invited to attend certain meetings, as deemed necessary and agreed by the group and Ofgem.
- 5.3 An alternate will be allowed if a member cannot attend, but only as a substitute for the member in question, not as an additional member of the group. In the event of a handover, the current and prospective representatives will both be permitted to attend, but for as short a period as possible.

6. Administration

- 6.1 The group will meet approximately bi-monthly. Dates and locations for each meeting will be set in advance by agreement between group members. The costs of meeting rooms, refreshments and administration will be met by Ofgem. Ofgem will not meet the expenses of any individuals invited to participate in the groups and no funds will be made available by Ofgem for the commissioning of studies etc.
- 6.2 Agendas and any material for discussion will be circulated to group members by the chairman approximately one week prior to each meeting.
- 6.3 Ofgem will produce a summary of key issues from each meeting. The agenda, meeting notes and associated papers will be published on the Ofgem website. Members are not under any confidentiality requirement and will be encouraged to report back to other parties on the issues that have been discussed.

7. Timescales

- 7.1 It is envisaged that the group will run until at least the end of 2005. These terms of reference will be reviewed and revised as the group and Ofgem deem necessary.