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Licence fee cost recovery principles

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1. Introduction

- 1.1 Under the Standard Licence Condition (SLC) entitled 'Payments by Licensee to the Authority' (SLC 3 in gas transportation licences and SLC 4 in electricity transmission licences and SLC 3 in electricity distribution licences), the amount to be paid annually by the licensee is a 'relevant proportion' of the amounts specified in paragraphs 2 (a) – 2 (d) and an adjustment by reference to the actual costs of the previous year in paragraph 2(e).
- 1.2 The 'relevant proportion' is defined as 'the proportion of the costs attributable to the licensee in accordance with principles determined by the Authority for the purposes of this condition generally and notified to the licensee'. This document sets out the principles determined by the Gas and Electricity Markets Authority ('the Authority') for the purpose of that definition of relevant proportion in relation to the three types of licence referred to in paragraph 2.3 below other than in respect of the costs that the Competition Commission incurs in relation to references to them concerning gas or electricity licensees as referred to in paragraph 2(c) of the SLCs. The process for recovering the costs that the Competition Commission incurred in relation to a reference to it concerning certain generation licensees is presently subject to consultation by Ofgem. The principles for recovering the costs that the Competition Commission incurred in relation to a reference to it will be determined by the Authority in due course.
- 1.3 The principles will be kept under review in the light of any material changes in circumstances, including in particular any modifications made to the 'Payments by Licensee to the Authority' SLCs or where there has been a significant change in ownership of a licensed gas or electricity network. The Authority would expect to consult licensees before making any changes to the principles.

2. The principles

Purpose

- 2.1 These principles set out the proposed arrangements for making payments to the Authority in respect of 2001/02 and will also apply in subsequent years. They do not apply to the recovery of the costs that the Competition Commission incurs in relation to references to them concerning gas or electricity licensees.

Legal status

- 2.2 These principles constitute the principles for the purpose of the 'Payments by Licensee to the Authority' SLCs and explain how the Authority will calculate the total amount payable under the 'Payments by Licensee to the Authority' SLCs for each licence holder that has this SLC included in its licence.

The principles

- 2.3 All of the costs that will be recovered by Ofgem will be recovered from the network businesses that hold the following types of licence:

- ◆ gas transportation;
- ◆ electricity transmission; and
- ◆ electricity distribution.

All references to licence holders in this document only refer to the above licence holders.

2.4 The costs that will be recovered by Ofgem through the 'Payments by Licensee to the Authority' SLCs on the basis of the formulae in paragraphs 2.7 and 2.8 comprise in relation to a relevant year the estimate of:

- ◆ Ofgem's costs being the net of:
 - ◆ All Ofgem's own costs less Ofgem's own costs that will be recovered by means other than through the use of the 'Payments by Licensee to the Authority' SLCs less Ofgem's exceptional costs; and
 - ◆ All Ofgem's own income. For the purposes of these principles Ofgem's own income excludes the income recovered through the 'Payments by Licensee to the Authority' SLCs;
- ◆ the costs of the Gas and Electricity Consumers Council (energywatch);
- ◆ recovery on behalf of the Secretary of State of other costs incurred by her under the Utilities Act 2000, or by virtue of specified provisions thereof in accordance with paragraph 2 (d) of the 'Payments by Licensee to the Authority' SLCs; and
- ◆ any under or over recovery of costs from preceding years.

An example of Ofgem's own costs that will be recovered by means other than through the use of the 'Payments by Licensee to the Authority' SLCs are costs incurred on behalf of other government departments.

2.5 In any year where the Authority needs to recover exceptional costs the method for recovering these costs will either be disclosed in the corporate plan for that year, or if this is not possible, in a separate statement. Exceptional costs comprise significant costs that in the opinion of the Authority cannot be divided between gas and electricity licence holders by reference to the formulas in paragraph 2.7 and 2.8 without unreasonably penalising either gas or electricity customers. It is anticipated that the recovery of historic gas costs will be treated as an exceptional item in 2001/02 and that these costs should be recovered from gas licensees. However, no exceptional costs are presently expected to be recovered in the licence fees for 2002/03.

- 2.6 The method for determining the number of gas and electricity customers is defined in Appendix 1. All the types of licence holder identified in paragraph 2.3 will be required to make formal returns, showing the number of customers on 30 September of the preceding year, to the Authority by 1 May in each year. For 2001/02 only, the Authority will use the estimates included in Appendix 2 for customer numbers on 1 April 2001. The licence holders will have the opportunity to send the Authority revised estimates for the number of customers at 1 April 2001 by 1 May 2002. If following the receipt of these revised numbers the Authority thinks that it is appropriate to recalculate the licence fees for 2001/02 it will do so and will adjust the licence fees due for 2002/03 to take this adjustment into account.
- 2.7 The costs that will be recovered by Ofgem as defined in paragraph 2.4 will be recovered from the gas licence holders holding the type of licence identified in paragraph 2.3 based on the following proportion:
- Total gas customers
to
total gas customers plus total electricity customers.
- 2.8 The costs that will be recovered by Ofgem as defined in paragraph 2.4 will be recovered from the electricity licence holders holding the types of licence identified in paragraph 2.3 based on the following proportion:
- Total electricity customers
to
total gas customers plus total electricity customers.
- 2.9 For gas licence holders, half of the amount recoverable will be allocated to the National Transmission System (NTS) and half of the amount recoverable will be allocated to licensed gas transportation networks that are not the NTS. For the purposes of this document the NTS is that part of the system for the time being designated by Transco as such and described in the Transco's transportation ten year statement.

- 2.10 The amount payable by Transco in its role as the owner of the NTS will be half of the total charge to gas transportation licence holders.
- 2.11 The amount payable by a gas transportation licence holder in its role as owner of a licensed gas transportation network that is not the NTS will be determined by the proportion of:
- the number of gas customers that are directly connected to any licensed gas transportation network of the licence holder that is not the NTS
- to
- the total number of gas customers.
- 2.12 For electricity licence holders, one half of the amount recoverable will be allocated between electricity transmission licence holders and one half of the amount recoverable will be allocated between electricity distribution licence holders.
- 2.13 The amount payable by each holder of an electricity transmission licence will be determined by the proportion of:
- the number of electricity customers that are directly connected to a licensed electricity distribution network where that network is situated wholly or mainly within the authorised area of the electricity transmission licence holder
- to
- the total number of electricity customers.
- 2.14 The amount payable by each holder of an electricity distribution licence will be determined by the proportion of:
- the number of electricity customers that are directly connected to any licensed electricity distribution network of that electricity distribution licence holder
- to
- the total number of electricity customers.
- 2.15 It is Ofgem's intention to amend the special conditions of Transco's licence as part of the amendments for its new price control licence condition so that for

2002/03 onwards the licence fee that Transco is required to pay will be treated as a pass through cost for price control purposes. For the 2001/02 licence fee the difference between the actual licence fee that Transco is required to pay and the amount allowed in its price control for licence fees will be recovered by Transco by an adjustment to its allowed revenue in 2002/03.

- 2.16 It is also Ofgem's intention to amend the licence conditions of the electricity distribution businesses and the Scottish transmission businesses that has been subject to formal Section 11 consultation so that the difference between the actual licence fees that these businesses will be required to pay and the amount allowed in their price controls will be treated as a pass through cost for price control purposes. NGC's licence already contains a licence condition that allows the pass through of Ofgem's licence fees for price control purposes.
- 2.17 A reconciliation between the final version of the corporate plan for the relevant year, the funding voted by Parliament for the relevant year and the total sum being recovered for the relevant year through the 'Payments by Licensee to the Authority' SLCs will accompany the invoices.
- 2.18 Ofgem will also attach to the invoices a reconciliation of any under or over recovery for the preceding relevant year between the corporate plan for the preceding relevant year, the licence fees recovered for the preceding relevant year through the 'Payments by Licensee to the Authority' SLCs and the costs for the preceding relevant year calculated in accordance with paragraph 2.4 of this document.
- 2.19 The minimum licence fee payable will be £500 a year. Where the amount due under the formula set out above is less than this it will be rounded up to £500.

Richard Ramsay
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Authorised on behalf of the Gas and Electricity Markets Authority
6 February 2002

Appendix 1 Definition of gas and electricity customers

- 1.1 The same basis for defining gas customers applies to all gas transportation licence holders for the purposes of this document.

A gas customer is:

Any premises supplied directly from a licensed gas transportation network, where metering equipment is used for the purpose of calculating charges for gas consumption. Customers should be identified from Meter Point Reference Numbers (MPRNs), such that individual customers are identified at each connection point.

The total number of gas customers is defined as the total number of customers directly connected to the licence holder's licensed gas transportation network as at 30 September each year.

Only one (individual) customer should be identified at each connection point. This means aggregating multiple MPRNs which arise due to the type of "tariff" (or equivalent) and/or metering arrangements but are associated with a single connection point (i.e. MPRNs in respect of additional concurrent meters should be ignored).

In some cases (e.g. flats) the connection point may be from the licensed gas transportation system to pipes owned by a landlord or a facilities manager. In such cases, individual customers supplied by such pipes are classed as customers of the licensed gas transportation system where they are identifiable from MPRNs.

Source:

The above definition of gas customers has been developed from the document 'Review of Transco's Price Control from 2002 - Regulatory Instructions and Guidance for Reporting Outputs, Ofgem, November 2001'. This document provides the instructions and guidance for Transco's reporting of outputs. It is Ofgem's intention that a new licence condition for the reporting of outputs will be included in Transco's licence in the near future.

- 1.2 The same basis for defining electricity customers applies to all electricity transmission and electricity distribution licence holders for the purposes of this document.

An electricity customer is:

Any energised or de-energised entry or exit point to the licensed electricity distribution system, where metering equipment is used for the purpose of calculating charges for electricity consumption. Customers should be identified from Metering Point Administration Numbers (MPANs), such that individual customers are identified at each connection point.

The total number of electricity customers is defined as the total number of customers directly connected to the licence holder's licensed electricity distribution network as at 30 September each year.

Only one (individual) customer should be identified at each connection point. This means aggregating multiple MPANs which arise due to the type of "tariff" (or equivalent) and/or metering arrangements but are associated with a single connection point (i.e. MPANs in respect of additional concurrent meters should be ignored).

In some cases (e.g. flats) the connection point may be from the licensed electricity distribution system to wiring owned by a landlord or a facilities manager. In such cases, individual customers supplied by such wiring are classed as customers of the licensed distribution system where they are identifiable from MPANs.

Source:

The above definition of electricity customers has been developed from the document 'Information and incentives project Regulatory instructions and guidance, Ofgem, February 2001'. This document provides the instructions and guidance for electricity distribution SLC 49 'Incentive Scheme and Associated Information'.

- 1.3 Initially Ofgem will request customer numbers from licence holders under the 'Provision of Information to the Authority' SLCs, rather than under the powers in paragraph 5 of the 'Payments by Licensee to the Authority' SLC.

Appendix 2 Allocation of licence fees to licence holders

- 2.1 Appendix 2 shows the numbers of directly connected customers on the networks of electricity distribution and gas transportation licence holders, at April 2001. The data is based upon information submitted to Ofgem based upon the customer definitions set out above. Where such data has not been provided by licensees Ofgem has estimated the value based on other sources of information obtained from licensees. This approach has been adopted to apply a consistent definition to all the electricity distribution licence holders and to all the gas transportation licence holders respectively.
- ◆ Several licence holders have submitted revised estimates to Ofgem of the numbers of customers on their networks at April 2001, in response to the December 2001 principles paper and on a basis consistent with the definitions given above. These revised values will be used for the purposes of calculating that licence fee.

Allocation of licence fees to licence holders

Licence holders	Customer numbers (at 1 April 2001)	Allocation of licence fees (%)
Electricity distribution		
Eastern Electricity Limited	3,399,200	3.445
East Midlands Electricity Distribution plc	2,461,261	2.494
London Power Networks plc	2,308,510	2.340
SP Manweb plc	1,435,603	1.455
GPU Power Networks (UK) plc	2,385,500	2.418
Northern Electric Distribution Limited	1,545,659	1.567
United Utilities Electricity plc (formerly Norweb plc)	2,294,544	2.326
Seaboard Power Networks plc	2,107,897	2.136
Scottish Hydro-Electric Power Distribution Limited	685,219	0.694
Southern Electric Power Distribution plc	2,734,998	2.772
SP Distribution Limited	1,903,563	1.929
Western Power Distribution (South Wales) plc	1,041,324	1.055
Western Power Distribution (South West) plc	1,356,892	1.375
Yorkshire Electricity Distribution plc	2,168,048	2.197
Total	27,828,218	28.204
Electricity Transmission		
National Grid Company	25,239,436	25.580
SP Transmission Limited	1,903,563	1.929
Scottish Hydro-Electric Power Transmission Limited	685,219	0.694
Total	27,828,218	28.204
Total Electricity	55,656,436	56.408

Licence holders	Customer numbers (at 1 April 2001)	Allocation of licence fees (%)
Gas transportation networks (excluding the NTS)		
British Gas Connections Limited	34,100	0.035
East Midlands Pipelines Limited	2,700	0.003
ES Pipelines Limited	1	0.000
GTC Pipelines Limited	100	0.000
Independent Pipelines Limited	123,100	0.125
Mowlem Energy Limited	0	0.000
Scottish Power Gas Limited	15,500	0.016
SSE Pipelines Limited	6,500	0.007
The Gas Transportation Company Limited	49,300	0.050
United Utilities Gas Networks Limited	200	0.000
United Utilities Gas Pipelines Limited	32	0.000
Utility Grid Installations Limited	0	0.000
Transco plc	21,274,200	21.561
Total	21,505,733	21.796
Gas Transmission		
Transco plc (NTS)	21,505,733	21.769
Total Gas	43,011,466	43.592
Total Gas and Electricity	98,667,902	100.000