



The Company Secretary
SP Distribution Ltd
1 Atlantic Quay
Robertson Street
Glasgow
G2 8SP

Bringing choice and value
to customers

Your Ref: COM-05-007
Our Ref: RBA/DPC/SOC/
Direct Dial: 020 7901 7255

cc: Tony McEntee (by email only)

6 December 2005

Dear Colleague,

Decision in relation to Modification Proposal COM-05-007 to the Use of System Charging Methodology: Housekeeping Changes

On 8 November 2005, ScottishPower plc submitted a proposal, reference COM-05-007, on behalf of SP Distribution Limited ('SPD') to the Gas and Electricity Markets Authority (the 'Authority')¹ to modify SPD's use of system (UoS) charging methodology statement.

The proposal modifies the UoS charging methodology statement for three housekeeping changes to clarify the approach used by SPD.

Having carefully considered the issues raised in the proposal, the Authority has decided to veto the proposed modification.

This letter sets out the background to the modification proposal, explains briefly the proposed changes, and sets out the reasons for the Authority's decision.

Background

SPD has licence obligations² to have in place as of 1 April 2005 three charging statements: the UoS charging methodology statement, the statement of UoS charges and the connection charging methodology statement. The UoS charging methodology statement outlines the method by which distribution UoS charges are calculated. SPD has a requirement to keep the

¹ Ofgem is the office of the Authority. The terms 'Ofgem' and the 'Authority' are used interchangeably in this letter.

² Standard Licence Conditions (SLC) 4-4B

methodology under review and bring forward proposals to modify the methodology that it considers better achieves the relevant objectives³.

SPD Modification Proposal

SPD proposes to clarify its UoS charging methodology statement by:

- Changing 'declared capacity' to 'maximum capacity' throughout the UoS charging methodology statement in line with the statement of UoS charges, and adding a definition for 'maximum capacity' to the glossary;
- Changing 'NGC' to 'NGET' throughout the UoS charging methodology statement;
- Adding a sentence to explain the treatment of 'unfirm capacity' for the purposes of the application of capacity charging, saying that, where unfirm capacity has been agreed, charges will be calculated as the greater of 'maximum capacity' and 'recorded demand';

SPD states that the changes will provide greater clarity in charging arrangements which they believe will aid cost reflectivity and will facilitate competition.

The modification proposal reports submitted by SPD can be found on the Ofgem website as an attachment to this document.

The Authority's decision

The change to the charging methodology requires approval from the Authority in line with SLC4.

The Authority has considered the proposal against the relevant objectives and wider statutory duties.

The changes to the UoS charging methodology statement regarding capacity replace the definition of 'declared capacity' with 'maximum capacity'. Maximum capacity is defined by SPD in the glossary to the UoS methodology statement as:

- the amount of electricity expressed, in kVA, at the delivery point provided by the Company.

Although SPD state that this change makes the UoS charging methodology statement consistent with the definitions in the statement of UoS charges, the definition and basis for the term is not clear. 'The Company' is not a defined term in the methodology, and the definition is not clear on whether this is a contractual or physical maximum. It is also not clear whether this definition

³ The relevant objectives for the use of system charging methodology, as contained in paragraph 3 of standard licence condition 4 of SPD's distribution licence are:

- (a) that compliance with the use of system charging methodology facilitates the discharge by the licensee of the obligations imposed on it under the Electricity Act 1989 and by this licence;
- (b) that compliance with the use of system charging methodology facilitates competition in generation and supply of electricity, and does not restrict, distort, or prevent competition in the transmission or distribution of electricity;
- (c) that compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable (taking account of implementation costs), the costs incurred by the licensee in its distribution business; and
- (d) that, so far as is consistent with sub-paragraphs (a), (b), and (c), the use of system charging methodology, as far as reasonably practicable, properly takes account of developments in the licensee's distribution business.

relates to both demand and generation customers and whether maximum capacity is equivalent to chargeable capacity.

In terms of the treatment of unfirm capacity, it is not clear whether maximum capacity includes unfirm capacity or not.

On the grounds that the changes relating to maximum capacity do not aid transparency or clarity and are ambiguous, the Authority has decided to veto this modification. It is, however, recommended that SPD consider how they could further modify their UoS charging methodology statement to provide greater clarity on the basis for charging for capacity.

Please contact Mark Cox on 0207 901 7458 or Colette Schrier on 0207 901 7239 if you have any queries in relation to the issues raised in this letter.

Yours sincerely,



Martin Crouch

Director, Distribution

Signed on behalf of the Authority and authorised for that purpose by the Authority