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DNOs, Suppliers, Distributed Generation and  
Other Interested Parties

Our Ref: RBA/DPC/SOC/  
Direct Dial: 020 7901 7255

15 December 2005

Dear Colleague,

**Consultation on Electricity Distribution Use of System Charging Modification Proposal:  
Central Networks – Excess Capacity Charges**

*Background*

Electricity Distribution Network Operators (DNOs) have licence obligations<sup>1</sup> to have in place as of 1 April 2005 three charging statements: the statement of use of system (UoS) charging methodology, the statement of use of system charges, and the statement of the connection charging methodology. The statement of UoS charging methodology outlines the method by which distribution UoS charges are calculated.

The DNOs have a requirement to keep the methodology under review and bring forward proposals to modify the methodology that they consider better facilitate achievement of the relevant objectives<sup>2</sup>.

Before making modifications to their charging methodologies the DNO must give the Gas and Electricity Markets Authority (the 'Authority')<sup>3</sup> a proposal to modify their methodology stating

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<sup>1</sup> Standard Licence Conditions (SLC) 4-4B

<sup>2</sup> The relevant objectives for both the connection and use of system charging methodologies, as contained in paragraph 3 of SLC4B and SLC4 of the distribution licence respectively 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.

how the proposal better facilitates achievement of the relevant objectives. The licensee then makes the modification unless within 28 days the Authority either directs the licensee not to make the modification or notifies the licensee that it intends to consult and then within three months directs the licensee not to make the modification.

A proposal received from Central Networks (CN) on 8 December 2005, covering both their East and West areas, sets out to modify their UoS charging methodology. Having carefully considered the issues raised by the proposal, the Authority has decided to consult on the proposed modification. This letter consults only on CN's proposal to modify their approach to excess capacity charges.

### *DNO Modification Proposal*

Ofgem has received a modification proposal associated with excess capacity UoS charges. This proposal is briefly described below but the detail can be found in the modification report submitted by CN which is detailed on our website as an attachment to this consultation document. It should be noted that CN submitted one report for each licensee (both their East and West areas).

### **CN Proposal**

*Charges affected* – currently CN levy a charge on customers if they exceed their authorised supply capacity (ASC) for the excess capacity amount. This is charged at the same rate as normal capacity. This proposal will mean that any excess capacity taken by customers above their ASC will be at a level different to the rate of the normal capacity charge. CN have indicated that this will be 2.1 times the normal rate for CN (East) and 1.7 times for CN (West) for 1 April 2006. This increased charge will only apply for the month in which the excess demand occurs.

*Customers affected* – applies to demand customers only who have half hourly (HH) metering.

*Methodology* – the approach considers that the network is designed to include a level of additional capacity to cater for customers who randomly exceed their ASC. This proposal reflects the cost associated with the need for this additional investment in the network to those parties who impose the cost on the DNO rather than being smeared across all users. The method can be described by the following steps:

- Historic information is used to calculate the average percentage level that users have exceeded their ASC;
- This percentage is then applied to all users to derive a potential level of capacity that may be required if all users exceed at the average level. A diversity factor is also used to recognise that this excess capacity will not be coincident on the network;
- The cost of this additional capacity is then divided by the forecast level of excess capacity in the coming year (based on last year's data) to derive a £/kW;
- This is compared with the current level of charge for the normal capacity to provide a multiplier.

*Relevant objectives* - CN consider the proposal better facilitates the relevant objectives on the basis that it is more cost reflective than their current methodology.

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<sup>3</sup> Ofgem is the office of the Authority. The terms 'Ofgem' and the 'Authority' are used interchangeably in this letter.

*Implementation* – CN propose that the change to their methodology should apply to charges from 1 April 2006.

### *Discussion*

As CN note in their modification report their charging approach prior to 1 April 2005 included an excess capacity charge of 3 times for both the East and West areas. When the charging methodology was submitted to Ofgem for approval by 1 April 2005, Ofgem considered that it had not been demonstrated that this excess capacity charge was cost reflective and met the relevant objectives. On this basis CN removed this approach from their methodology and instead charged customers who exceeded their ASC at the same level charged for normal capacity.

The table in **Annex 1** shows at a high level the different approaches taken by the DNOs to customers taking capacity in excess of their contractually agreed maximum amount prior to this modification. It can be seen that different approaches are taken by the DNOs but most charge for the capacity exceeded at the same rate as the normal capacity. Some DNOs charge users over an extended period for the higher capacity taken, e.g. 12 months, rather than just the month in which the excess amount was taken.

### *Views sought*

- What costs are caused on the network by users exceeding their ASC?
- Does the proposed modification to the charging methodology and the approach proposed by CN for excess capacity charges reflect these costs?
- As noted in Annex 1, there are different approaches taken by the DNOs to excess capacity charging – are these justified? For instance, what are the main drivers for differences between charging for 1 month as compared to 12 months?
- Does the proposed modification better achieve the relevant objectives?

### *Responses to this consultation letter*

Views are invited on all the issues raised on this charging modification proposal from interested parties, including DNOs, suppliers, distributed generators, customers and their representatives.

Views are invited by **Friday 27 January 2006**. Where possible responses should be sent electronically to:

Mark Cox  
Distribution Policy  
Office of Gas and Electricity Markets  
9 Millbank  
London  
SW1P 3GE  
Tel: 0207 901 7458  
Email: [mark.cox@ofgem.gov.uk](mailto:mark.cox@ofgem.gov.uk)

It should be noted that the process associated with modifications to the charging methodologies is detailed within the distribution licence, SLC 4 and 4B. As the Authority's decision is time bound please ensure that your comments are received by the date indicated so that they can be fully considered – it may not be possible to consider responses that are received after this date.

All responses will be held electronically by Ofgem. They will normally be published on the Ofgem website unless they are clearly marked confidential. Consultees should put confidential material in appendices to their responses where possible. Ofgem prefers to receive responses electronically so that they can easily be placed on the website.

Copies of this document are available on the Ofgem website under Electricity Distribution Charges (Modifications) area of work.

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,

A handwritten signature in black ink, appearing to read 'M. Crouch', with a long horizontal flourish extending to the right.

**Martin Crouch**  
**Director, Distribution**

## Annex 1: DNO excess capacity charges, 2005-06

Company	General <sup>4</sup> treatment of excess capacity charges
CE Electric – NEDL	HH customers (where availability charges apply) will be charged availability charges based on the Agreed Capacity (AC) or, if higher, the Maximum Demand/ Export. This is charged at the normal rate.
CE Electric – YEDL	HH customers (where availability charges apply) will be charged availability charges based on the Agreed Capacity (AC) or, if higher, the Maximum Demand/ Export. This is charged at the normal rate.
Central Networks – East	HH demand customers will be charged for any excess demand capacity taken at <b>1 times</b> the normal rate in the month taken.
Central Networks – West	HH demand customers will be charged for any excess demand capacity taken at <b>1 times</b> the normal rate in the month taken.
EDF Energy – EPN	HH demand customers will be charged availability charges at the normal rate based on the declared Maximum Power Requirement (MPR) or if higher, the highest demand measured (in kVA) in any of the preceding 12 months.
EDF Energy – LPN	HH demand customers will be charged availability charges at the normal rate based on the declared Maximum Power Requirement (MPR) or if higher, the highest demand measured (in kVA) in any of the preceding 12 months.
EDF Energy – SPN	HH demand customers will be charged availability charges at the normal rate based on the declared Maximum Power Requirement (MPR) or if higher, the highest demand measured (in kVA) in any of the preceding 12 months.
SP Distribution	HH demand customers will be charged the Maximum Capacity or if higher, the kVA of Maximum Demand in the current month based on the normal rate.
SP Manweb	HH demand customers will be charged the Maximum Capacity or if higher the kVA of Maximum Demand in the current month based on the normal rate.

<sup>4</sup> The approaches described are applied to the majority of customers. In some specific cases different charging arrangements apply.

Company	General treatment of excess capacity charges
<b>Southern Electric Power Distribution</b>	Non domestic customers with 'M' charges are charged for excess availability. Charges vary for blocks of maximum capacity and if a customer exceeds they will be charged for the next block up for at least 12 months.
<b>Scottish Hydro Electric</b>	HH and Maximum Demand customers will be charged based on their Authorised capacity or if higher, the capacity recorded in the relevant month at the normal rate. The customer will then be charged at this higher capacity level until further notice.
<b>United Utilities</b>	Customers on Maximum Demand tariffs will be charged based on their Agreed Capacity or if higher, the Supply Capacity taken in that month or in any of the previous 11 months at the normal rate.
<b>WPD South West</b>	HH demand customers will be charged based on their Agreed Capacity or the recorded capacity in the relevant month whichever is the higher. This charge will be at the normal capacity rate.
<b>WPD South Wales</b>	HH demand customers will be charged based on their Agreed Capacity or the recorded capacity in the relevant month whichever is the higher. This charge will be at the normal capacity rate.

## Annex 2: Glossary

ASC	Authorised Supply Capacity
DNO	Electricity Distribution Network Operator
DRM	Distribution Reinforcement Model
LV	Low Voltage as defined in the Distribution Code (less than 1000V)
HV	High Voltage as defined in the Distribution Code (greater than 1000V)
HH	Half Hourly metered customers
kVA	Kilo Volt Amperes
kVArh	Kilo Volt Amperes Reactive hour
kWh	Kilo Watt hour
MD	Customer with Maximum Demand metering
NHH	Non Half Hourly metered customers
UoS	Use of System