



## SP Transmission & Distribution

Mark Cox  
Distribution Policy  
Office of Gas & Electricity  
Markets  
9 Millbank  
London  
SW1P 3GE

Your ref

Our ref

Date  
13 January 2006

Contact/Extension  
Jeremy Blackford

0151 609 2346

Dear Mark,

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

I am writing on behalf of SP Distribution and SP Manweb in response to Martin Crouch's letter dated 15 December 2005.

Capacity charges are an important aspect in managing the connection and use of system boundary. When a customer requests a connection, the connection charges reflect the additional capital costs of providing the Requested Capacity, including reinforcement of the existing distribution system. Ongoing capacity charges generally reflect the costs of operating and maintaining the network and reflect the fact that some of the capital costs will have been funded through connection charges. If customers under-specify their requirement, they will reduce their contribution to reinforcement of the network through the connection charge. These costs will be recovered through the 'normal' capacity charges levied on all customers and hence an additional charge is justified to recover these from specific customers who exceed their capacity. We therefore support the modification proposal of Central Networks as it better meets the relevant objectives – that is to say, it enhances the cost reflectivity of charges for distribution use of system.

The approaches used by other DNOs, including ourselves, generally increase charges where agreed capacity is exceeded for up to twelve months, but with no premium charge. The charging effects of both approaches are broadly the same, however, the approach outlined by CN offers a cleaner and more cost reflective pricing signal and is something we will consider, taking into account implementation costs. We need to consider the CN approach in more detail as it may underestimate the premium after taking into account that excess capacity charges will not have been reflected in any connection charge.

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We can see merit in DNOs adopting the same methodology in respect of capacity charges and it is being considered as part of the review of long term charging arrangements.

I hope that this is helpful but please contact me if you would like to discuss further.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J Blackford', written in a cursive style.

**Jeremy Blackford**  
**Regulation**  
**SP Transmission & Distribution**