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Dear Mark

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

I refer to the open consultation letter, dated 15 December, on the above and set out SSE's response to the issues raised below.

The concept of "maximum authorised capacity" (though it goes under several different names across DNOs) is a key parameter in the contractual relationship between a final customer and a DNO. It represents an agreed capacity that is not to be exceeded under the terms of the connection agreement between these two parties. If, despite this contractual agreement, the customer does exceed the agreed capacity at his point of connection then he has breached his connection agreement and is liable for costs incurred and damage caused to his own, the DNO's and potentially other customers' equipment. These liabilities are covered in the connection agreement and any costs associated with the particular case of breach will be subject to bilateral discussions between the DNO and the customer concerned.

We believe that these costs and discussions are a completely separate matter from the question of what a customer should be charged, via the use of system charges payable by his supplier, for the excess capacity that has been used. In our view, these charges should be made on the same basis as capacity is charged to similar customers on a "without prejudice" basis to the particular costs that might be found to have been caused in a particular case of a customer exceeding the agreed capacity. In other words, we do not see any place for a regime of penal charging through the use of system tariff, for any excess capacity used. There is already a contractual route for specific costs incurred in a particular case to be recovered from the customer concerned. The tariff charges should, in our view, aim to put the customer concerned on the same footing, in terms of use of system charge liability, as a customer who has correctly sized his maximum capacity to cover his peak capacity requirement during the year. In this way, the costs of using the system are shared equitably between users.

Furthermore, a DNO has a statutory obligation to “develop and maintain an efficient, co-ordinated and economical system of electricity distribution”. As the DNO seeks to plan and develop his network in the most efficient manner, it needs to be able to rely on maximum agreed capacities as figures that will not be exceeded. In our view, the existence of a “penal excess capacity charge” would dilute the message contained in the connection agreement that the agreed maximum capacity is not to be breached. It would therefore make it more uncertain whether customers would abide by the agreed maximum capacities and make the DNO’s task of planning and developing the network more difficult and potentially more inefficient. We therefore believe that the statutory obligation above is best facilitated by charging arrangements that demonstrate no tolerance of excess capacity being taken rather than one where the published tariff contains a recognition that customers may exceed their agreed capacity.

Ofgem’s Questions

- *What costs are caused on the network by users exceeding their authorised supply capacity?*
The sort of costs that might be caused are those associated with stress, deterioration and ultimately permanent damage of network components through overloading. This can extend from equipment at the customer’s connection site through other geographically distant line and plant on the network, potentially at other voltage levels, to equipment at other customers’ sites. Any degree of damage may result in such equipment requiring to be replaced. There are also safety implications for customers and members of the public if plant is overloaded.
- *Does the proposed modification to the charging methodology and the approach proposed by CN for excess capacity charges reflect these costs?*
We do not believe that any tariff-based charge can adequately reflect the costs that might be incurred in a particular case of breach of the maximum agreed capacity.
- *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?*
All the DNO approaches summarised by Ofgem in Annex 1 (including Central Networks at present) charge for excess capacity at the normal capacity rate. There may well be issues for suppliers in the introduction by one DNO group of a different system of calculating the excess capacity charge.

There are, however, differences across DNOs in the length of time for which the overall capacity charge will reflect the excess capacity taken. In our view, it is appropriate for the excess capacity taken to become the new default chargeable capacity for at least the next 12 months. Using the recent “excess” level of capacity taken forms an efficient default billing process. Also, for those few customers who are unlikely to repeat the excess capacity requirement, use of the “excess” level of capacity as the default chargeable capacity ensures that use of system charges are non-discriminatory. The use of system charges seen by a customer who breaches the maximum agreed capacity to a level of X kVA will be the same as those seen by a customer who agrees a maximum capacity of X kVA in advance to reflect a single peak use of X kVA during the year.

While we do not believe that it is necessary for DNOs to have precisely the same approach to all aspects of network charging, we note that there is already a sub-group of the ENA Commercial Operations Group considering capacity charging issues. We believe that there is

likely to be a degree of harmonisation in terminology and approach on capacity issues across DNOs over time. This is also likely to be supplemented by the joint DNO work on the longer-term arrangements for use of system charging. We do not believe that differences in approach across DNOs need to concern Ofgem as it formally considers the single change in methodology proposed by one DNO. There is, however, merit in Ofgem considering whether the methodology change under consideration would introduce a difference in approach that may introduce billing issues for suppliers.

- *Does the proposed modification better achieve the relevant objectives?*
No. We do not believe that the changes are more cost reflective or better facilitate the licensee in discharging its statutory obligations.

I hope these comments are helpful.

Yours sincerely

Rob McDonald
Director of Regulation