

## Modification Proposal

**Modification number: 0005/2006 – Revised EHV migration**

Clarification of the migration strategy for EHV charges currently below the outputs from the locational yardstick models.

**Date Submitted: 30 October 2006**

**Version number: 1.7**

**Date Approved:**

**Date Rejected:**

**Implementation Date: 1 April 2007**

### Details of Proposal:

CE Electric UK proposes to modify section 4.3 of the existing UoS methodology. This change will apply to both Yorkshire Electricity Distribution plc (YEDL) and Northern Electric Distribution Ltd (NEDL). The change is to provide greater transparency and clarification in the methodology statement of the migration strategy for those EHV customers currently charged below the output from the locational yardstick model.

At the end of May 2006 we indicated to suppliers, large end-users, Ofgem and ISG members our intention to make future changes to our charging methodology. This was via a consultation letter 'Development of CE Electric UK charging methodologies - date', which requested comments and feedback. A key component of this letter was the treatment of those EHV sites that are currently enjoying transitional relief and an early indication of the likely cost-reflective EHV charges that sites could face in future years, based on our yardstick models, once transitional relief is ended.

#### Specific EHV issues

Historically EHV charges were calculated differently for both NEDL and YEDL. In order to align and standardise processes and provide a sound basis for understanding how EHV income should be calculated, a new set of consistent locational EHV charging models was implemented across CE Electric UK on 1 April 2005.

Inevitably the standardisation of processes, particularly those that impact on the charges faced by some of the largest customers, is a sensitive subject. Hence, in recent years, in agreement with Ofgem, we have utilised a migration strategy that gave some transitional relief to those customers most adversely affected. This migration strategy, as it has applied until now, is detailed below:

#### From April 2005

- The charge levied on all new EHV sites matched the target charge generated from the locational EHV yardstick model;
- Sites connected prior to 1 April 2005 were put on a bespoke migration strategy towards the new target charge such that, where possible, we provided price predictability and stability: -
  - Those sites for which the legacy charges, calculated using previous methodologies, were above the current target EHV charge were moved to this lower level immediately;
  - Those sites for which the legacy charges, calculated using previous methodologies, were below the current target EHV charges had their increase capped at 15% for the 2005/06 charging year. However, should the assets utilised in their connection have changed, then the target charge would have

been applied.

This was in line with Ofgem's decision in February 2005, to consultation 284/04 – Transition of electricity distribution EHV demand use of system charges.

### From April 2006

- The charge levied on all new EHV sites matched the target charge generated from the locational EHV yardstick model; and
- Sites connected prior to 1 April 2005 whose legacy charges were calculated using previous methodologies and were still below the current locational EHV yardstick charge had their increase capped at RPI for the 2006/07 charging year. However, should the assets utilised in their connection be changed, the target charge will be applied.

Continuing the transitional relief enjoyed in recent years by some EHV customers means that we shall maintain an element of cross-subsidy between customer groups in our income recovery, which causes us issues with regard to the cost-reflectivity of the charges faced by such customers.

### Sensitivity and impact assessment

All the analysis is based on the 2006/07 charges as at the time of producing this modification. 2006/07 EHV charges represented 1.67% of the expected £426.36m CE UoS tariff income (£4.00m for NEDL and £3.13m for YEDL).

The tables below show the number of sites currently at the locational yardstick model. It also undertakes a detailed analysis of all sites that are currently experiencing transitional relief as they are not charged based on the model outputs.

The following is a high-level summary:

- NEDL – 4 sites out of 34 with increases required of between 8 and 183 per cent; and
- YEDL – 9 sites out of 38 with increases required of between 17 and 104 per cent.

	NEDL	YEDL
At model	30 (88.2%)	29 (76.3%)
Below model	4 (11.8%)	9 (23.7%)
<b>Total</b>	<b>34</b>	<b>38</b>
<b>2006/07 Income</b>	<b>£4.24m</b>	<b>£3.13m</b>

NEDL LLF	At model	2006/07 charge	Yardstick model	variance	% increase
612	No	£15,882	£44,990	£29,108	183%
619	No	£14,313	£17,472	£3,159	22%
624	No	£368,040	£397,224	£29,184	8%
631	No	£245,505	£283,139	£37,634	15%
<b>Total</b>		<b>£643,740</b>	<b>£742,825</b>	<b>£99,085</b>	<b>15%</b>

YEDL LLF	At model	2006/07 charge	Yardstick model	Variance	% increase
753	No	£61,979	£98,377	£36,397	59%
754	No	£46,053	£80,561	£34,508	75%
755	No	£29,224	£34,574	£5,349	18%
756	No	£44,133	£59,783	£15,651	35%
761	No	£39,984	£56,138	£16,154	40%
762	No	£4,139	£8,448	£4,309	104%
763	No	£141,460	£179,586	£38,126	27%
764	No	£170,709	£228,245	£57,536	34%
766	No	£174,145	£204,452	£30,308	17%
		<b>£711,825</b>	<b>£950,164</b>	<b>£238,338</b>	<b>33%</b>

### Responses to consultation letter

Letters were sent to all 72 of our EHV customers.

#### Formal responses to the consultation letter from EHV customers

- No formal written responses were received to this letter.

#### Informal responses to the consultation letter from EHV customers

- Three telephone calls from large end-users which are detailed below:
  - Although one of their sites is currently enjoying transitional relief they were more interested in getting further background on the wider structure of charges debate and were generally comfortable with the information provided to them;
  - Although this site is not currently enjoying transitional relief they were asking questions about the way their charges are calculated; and
  - The end user most adversely affected by the proposal (multiple sites in NEDL and YEDL). Although the YEDL charges are due to increase their main concern was the increases in NEDL. We have reviewed and validated the treatment of the assets driving the price increases.

### Conclusion

Given the above, our proposal is to remove the transitional relief that some EHV sites have enjoyed for the last two years. Hence, from April 2007 the charge levied on all EHV sites will match the target charge generated from the locational EHV yardstick model.

A change-tracked copy of the relevant sections of our methodology statement is attached in Appendix 1.

### Description of the changes:

#### Key outputs of EHV charging model – [section 4.3]

The changes to section 4.3 are to:

- Remove reference to any migration strategy; and
- Insert text stating “From April 2007 the charge levied on all EHV sites will match the target charge generated from the locational EHV yardstick model.”

**Licence objectives:**

The use of system charging methodology has the following objectives set out in Standard licence condition 4:

- (a) that compliance with the use of system charging methodology facilitates the discharge by the licensee of the obligations imposed on it under the Act and by the licence;
- (b) that compliance with the use of system charging methodology facilitates competition in the 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 reasonably practicable, 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 is reasonably practicable, properly takes account of developments in the licensee's distribution business.

**Why the proposal better meets the objectives:**

Having reviewed our methodology we believe the proposed change better meets the objective set out in standard licence condition 4 and in particular section (c) above as it removes any known cross-subsidy. It also provides more transparency and simplicity for suppliers and end-users and as such should allow them to better understand how their charges are calculated.

It should be noted that there are no consequential impacts on charges, or other industry documents, and no adverse effect on competition.

**Conclusions:**

We would like to introduce these changes to our methodology statement from 1 April 2007. We would therefore ask Ofgem to consider this proposal and inform us of their decision. The new version of our methodology statement will be 1.7.

## Appendix 1 – Revised EHV migration

### 4.3 Key outputs of EHV charging model

The key output of the EHV charging model is a target UoS charge, which will be levied on a pence/site/day basis. In addition, on request, a forecast of future charges can be generated based on the current network configuration and some high-level assumptions on future costs.

From April 2007 the charge levied on all EHV sites will match the target charge generated from the locational EHV yardstick models.

~~From April 2005:-~~

- ~~• The charge levied on all new EHV sites will match the target charge generated from the locational EHV yardstick model.~~
- ~~• Sites connected prior to 1 April 2005 will be put on a bespoke migration strategy towards the new target charge such that, where possible, we provide price predictability and stability.~~

~~Therefore, sites whose legacy charges were calculated using previous methodologies, and are below the current locational EHV yardstick charge will see an RPI increase for the 2006/7 charging year. However, should the assets utilised in their connection be changed, the target charge will be applied.~~