



Central Networks East - Proposals Concerning Use of System Charging Methodology

March 2008

Reference 02/2008 East

Introduction

This submission is made in respect of Central Networks East. A separate but similar submission is also being made in respect of Central Networks West. In addition, separate, but linked, proposals are being made in relation to Central Networks East and West's connection charging methodologies.

Proposals detailed in this submission result from a review of our use of system charging methodology following the Authority's veto of our earlier proposals concerning use of system charging methodology, submitted in December 2007. In particular, these proposals address the point made in the Authority's veto letter of 16th January, that:

"We accept CN's view that it may take several years for IDNO developments to reach full capacity; however, we consider that the issues highlighted by CN in this respect are not sufficient to justify the replacement of capacity charges with unit-only tariffs in the manner proposed. It is our view that this is an issue related to the application - rather than the calculation - of capacity charges, and as such could be addressed through appropriate commercial arrangements for the phasing of capacity requirements."

Our proposals address the need for appropriate commercial arrangements and, as such, represent a significant improvement to our methodologies that will have a positive impact on operators of embedded licensed distribution networks. We believe implementation of these proposals will better achieve relevant objectives set out in our licence, particularly the requirement not to restrict, distort, or prevent competition in the distribution of electricity.

We are considering the other points made in the Authority's veto letter and aim to address these in separate future modification proposals.

We plan to implement the proposed methodology on 1st April 2008, or as soon as possible thereafter, following a 'non veto' decision by the Authority.

Proposals

We have developed a new methodology in relation to capacity build up for embedded network connections. Implementation of these proposals will have a positive impact on the application of DUoS capacity charges to operators of embedded licensed distribution networks.

The remainder of this section is arranged in the following way:

- 1 Detailed description of our proposals;
- 2 How the proposals better meet licence conditions;
- 3 Consultation carried out;
- 4 Proposed wording of Methodology Statement; and
- 5 Our future plans.

1. Detailed description of the proposals

Where connection is made to an embedded distribution network operated by another licensed distribution system operator, demand at the boundary may grow over an extended period of time.

In these circumstances we propose that the capacity used for DUoS charging purposes will be allowed to grow over time, in line with demand, up to the limit represented by the authorised supply capacity.

During the period of demand growth, operators of embedded licensed distribution networks will be entitled to use the authorised supply capacity in accordance with the relevant connection terms.

2. How the proposals better meet licence conditions

Operators of embedded licensed distribution networks have expressed concerns that capacity charges based on the anticipated demand of fully matured networks have a significant negative impact on available margin during the growth phase of these networks, and that this represents a barrier to competition. The proposed methodology will allow operators of embedded licensed distribution networks to procure connections capable of meeting the anticipated final demand of their

networks, without the requirement to pay more in ongoing DUoS capacity charges than is warranted by their actual demand during the growth phase. The proposed treatment of capacity build up mirrors the way in which capacity builds up when Central Networks provides 'all the way' connections to similar developments. The proposals remove a potentially significant barrier to competition and their implementation would, therefore, better meet the licence requirement not to restrict, distort, or prevent competition in the distribution of electricity.

Operators of embedded licensed distribution networks are different from 'normal' connected customers in two significant ways; firstly they are direct competitors of Central Networks in the business of electricity distribution; and, secondly, their networks typically take several years to achieve their final mature level of demand. For these two reasons we think it appropriate to treat these operators differently in some respects.

3. Consultation carried out

We have not consulted formally on these proposals. We have discussed the issues around capacity charges informally with IDNOs, and are aware from these discussions that capacity build up is seen as a significant issue that needs to be overcome. These proposals address this issue specifically and provide a solution that we believe will be welcomed by the IDNO community.

4. Proposed wording of methodology statement

Additional text to be added to the end of paragraph 42 in our current Use of System Charging Methodology:

Where connection is made to an embedded distribution network operated by another licensed distribution system operator, demand at the boundary may grow over an extended period of time. In these circumstances the capacity used for DUoS charging purposes will be allowed to grow over time, in line with demand, up to the limit represented by the authorised supply capacity. For the avoidance of doubt, these arrangements do not affect the entitlement of operators of embedded licensed distribution networks to use the authorised supply capacity in accordance with the relevant connection terms. [Arrangements for periodic review of the

authorised supply capacity are detailed in the Connection Charging Methodology (paragraph 2.25).]

Note - inclusion of wording in square brackets above is conditional on approval of our linked proposals in relation to our connection charging methodology.

5. Our future plans

We plan to implement the proposed methodology on 1st April 2008, or as soon as possible thereafter, following a 'non veto' decision by the Authority.

We are considering the other points made in the Authority's veto letter and aim to address these in separate future modification proposals.

In respect of longer term arrangements, we are actively working with Scottish Power Energy Networks and Scottish and Southern Energy Power Distribution, under the 'G3' banner. The G3 companies plan to make proposals for wide ranging changes to our use of system methodology. It is our intention to use the methodology set out in these proposals in conjunction with the new G3 methodology when this is implemented.