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Promoting choice and  
value for all customers

cc: Chris Allanson (by email only)

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### **Decision in relation to modification proposal 0010N/2008: Apportionment rule housekeeping**

On 17 June 2008, CE Electric UK Limited ("CE") submitted a proposal to the Gas and Electricity Markets Authority ("the Authority") to modify its connection charging methodology for its Northern Electric Distribution Ltd ("NEDL") distribution network<sup>1</sup>.

CE has proposed to update its connection charging methodology and statement in order to make its Condition 13 statement clearer. The modification proposal aims to (i) clarify the treatment of incremental capacity increases by adding a new sentence; and (ii) reorder some sections so that all text related to the apportionment rules is located in the same part of the document.

Having considered the issues raised in the proposal, we have decided **not to veto** the proposed modification.

This letter sets out the background to the modification proposal, summarises the proposed changes and explains our decision.

#### Background

CE has licence obligations to have in force at all times a statement of Use of System (UoS) Charging Methodology and a Connection Charging Methodology<sup>2</sup>. The Connection Charging Methodology outlines the method by which connection charges are calculated. CE has a requirement to keep the methodology under review and bring forward the proposals to modify the methodology that it considers better achieves the relevant licence objectives<sup>3</sup>.

<sup>1</sup> Ofgem is the office of the Authority. The terms 'Ofgem' and 'the Authority' are used interchangeably in this letter.

<sup>2</sup> Standard licence condition 13.

<sup>3</sup> The 'Relevant Objectives' for the connection charging methodology, as contained in paragraph 3 of standard licence condition 13 of the licence are:

- (a) that compliance with the methodology facilitates the discharge by the licensee of the obligations imposed on it under the Electricity Act 1989 and by the licence;
- (b) that compliance with the 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 methodology results in charges which reflect, as far as is reasonably practicable (taking account of implementation costs), the costs incurred by the licensee and its Distribution Business; and
- (d) that, so far as is consistent with sub-paragraphs (a), (b) and (c), the connection charging methodology, as far as is practicable, properly takes account of developments in the licensee's Distribution Business.

The connection charging apportionment rules came into effect on 1 April 2005, replacing the '25% rule' that had been in place previously. The rules are detailed within the DNOs' connection charging methodology statements and describe how much of any reinforcement costs should be born by a connectee. The rules apply to a prospective customer who requests a quote for connection to the distribution system and an existing customer who requests a capacity upgrade.

This modification proposal is one of three submitted by CE Electric on 17 June 2008 to clarify the application of the apportionment rules in relation to its NEDL distribution network. Each proposal has been considered on an individual basis.

CE modification proposal

CE has proposed to make the following amendments to its Connection Charging Methodology Statement:

- To incorporate a new sentence to clarify that CE's default position is to base the charge for reinforcement on the incremental capacity required by the customer. Where an existing customer requests additional capacity within 5 years of its original connection, the modification allows for total capacity to be charged. This is designed to prevent gaming of the charging rules within an initial 5-year period.
- To make various amendments to reorder the document to provide additional clarity.

Ofgem's decision

This modification adds precision to the apportionment rules by making them clearer. In particular it makes unambiguous that the incremental capacity criteria will be the default rule used to charge for reinforcement. We consider the use of incremental capacity is in line with the principle that connection charges shall recover an amount for reinforcement based on a proportionate share of the costs of such reinforcement.

We have analysed this proposal taking into account both the relevant objectives and our wider statutory duties. We consider that resulting connection charges will better reflect the costs incurred by the licensee in its distribution business. The change promotes efficient and economic development of CE's network. We also consider the change helps customers to better estimate the connection charge and understand the method used to apportion charges.

We have decided **not to veto** the modification to the connection charging methodology and statement.

Please contact Javier Tapia at [javier.tapia@ofgem.gov.uk](mailto:javier.tapia@ofgem.gov.uk) or on 020 7901 7074 if you have any queries relating to issues raised in this letter.

Yours faithfully,



Rachel Fletcher

**Director, Distribution**

Signed on behalf of the Authority and authorised for that purpose by the Authority