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20 January 2009

Dear Mark,

**CODE GOVERNANCE REVIEW – CHARGING METHODOLOGY GOVERNANCE OPTIONS**

ScottishPower is pleased to respond to your consultation dated 17 September 2008 on how improved governance might apply to charging methodology changes. This response is on behalf of all ScottishPower's businesses including our networks, generation and supply businesses as well as ScottishPower Renewable Energy Limited.

We are fully supportive of Ofgem's proposals to move the charging methodologies within a suitable framework of governance and believe that option 3 – incorporation within the existing codes – provides the best solution because it avoids the need to bring new governance structures into being as well as providing the additional accountability of possible appeals to the Competition Commission.

There are however some issues about the implementation of this proposal in distribution networks, in particular:

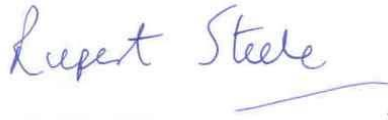
- (a) We consider that implementation of the change in the case of electricity distribution should be deferred until the Electricity DNO Structure of Charges project is completed. This programme will bring about significant changes to individual DNO charging methodologies and it would be a distraction that could delay implementation to have an additional process running concurrently. It is also difficult to see how a code modification could be proposed to a common methodology that was not yet in place;
- (b) It will be important to have a mechanism to limit the flow of proposals relating to distribution charging. This is particularly an issue for electricity distribution networks (where there are a large number of embedded generators who may suggest methodology changes focussed on their particular circumstances) but may also be relevant to gas distribution. We do not think such a mechanism is needed for gas or electricity

transmission because the number of parties is more limited and they are more familiar with the process.

It will be important in proceeding with Option 3 that DECC take the necessary steps to designate DCUSA and the IGT UNC as codes where appeals can be made to the Competition Commission.

I attach a short note giving more detailed comments on the consultation and we would be pleased to answer any questions you may have on our observations – please contact me using the details printed on the previous page.

Yours sincerely,

A handwritten signature in blue ink that reads "Rupert Steele". The signature is written in a cursive style and is positioned above a horizontal line.

**Rupert Steele**  
Director of Regulation

# CODE GOVERNANCE REVIEW: CHARGING METHODOLOGY GOVERNANCE OPTIONS (132/08)

## Comments by ScottishPower

### Introduction

It is important that market participants should be able to propose changes to the charging methodologies which have major short term impacts on operational decisions and long term impacts on siting decisions for electricity generation, gas production and industrial facilities.

We believe that the best approach would be Option 3, where the charging methodologies would be transferred into the relevant industry codes and parties to the industry codes would be able to raise changes. This will avoid the need to set up new procedures for governance under Options 2 and 4, and therefore save complexity and time. Option 3 can also ensure that decisions are covered by the possibility of appeal to the Competition Commission, where Ofgem goes against the panel view.

In any of Options 2 to 4, it would be necessary to relieve the network licensee of the obligation to have a charging methodology that meets “relevant objectives” as the licensee would not necessarily have control of any changes made. Instead those objectives would need to become the assessment criteria for modifications (or possibly in the case of Option 3, be subsumed within the existing applicable objectives that govern modification decisions).

In the case of electricity distribution, there is a considerable programme underway to develop and implement a common use of system charging methodology as part of the Electricity DNO Structure of Charges project. This work is likely to result in significant changes to current charging methodologies. While this programme is underway we do not think it would be appropriate to incorporate the electricity distribution charging methodologies into the Distribution Connection and Use of System Agreement (DCUSA) and allow parties to the DCUSA to raise changes. Apart from the workload issues, until a common methodology is in place, it would be difficult to know what third party modifications would be modifying,

Accordingly, we believe that the implementation of Option 3 to electricity distribution should be deferred until the current structure of charges project has fully reached a conclusion.

Our responses to the specific questions asked are set out below.

### Chapter 2 - Key Issues

#### *Question 1 – Other key issues that should be considered*

One area that is not explicitly addressed in the paper is the link between connection and use of system charging. Changes to the boundary between use of system and connection are likely to involve additional resources to consider and affect different categories of user.

It should be noted that only some code modifications are currently subject to appeal to the Competition Commission. In particular DCUSA and the IGT UNC are not currently covered by this mechanism. It will be important, in proceeding with Option 3, that these codes are designated by DECC so that the Appeals mechanism legislated by Parliament is in place.

#### *Question 2 – Aspects of key issues not yet considered*

As regards network revenue recovery, the network operator would remain responsible for setting and notifying its level of charges and managing compliance with its charge restrictions. We would expect licence provisions in this area to remain unchanged.

Once governance of charging methodology is transferred to the code or alternative Governance, the obligation on the network operator to prepare a methodology which meets the licence “relevant objectives” should be removed as the methodology is no longer in the network operator’s control. Instead the applicable objectives for the code, or some other analogous objectives, should apply for the change process.

#### *Question 3 - Common timetable and priorities*

Because of the interaction with the electricity DNO structure of charges project, we think that transmission charging (and gas distribution if desired) should be addressed first. The transfer of electricity distribution charging methodologies to the codes should await full completion of the structure of charges project.

### *Chapter 3 - Options*

#### *Question 1 - Alternative governance arrangements*

We believe that Ofgem has identified all the appropriate options.

#### *Question 2 – Assessment of the options*

We broadly agree with Ofgem’s assessment of the options, but would add a preference for Option 3 because of the avoidance of the need to invent new governance structures and the additional accountability provided by the Competition Commission appeal route.

Under Option 3, the industry panel will be able to deal with proposed charging methodology changes on the same basis as other code modifications and will also be able to take into account the availability of expertise to evaluate proposed modifications when setting a timetable.

The panel will also be able to take into account the effect of volatility in charges when recommending acceptance or rejection of proposed modifications as also will Ofgem when deciding on approval.

Experience from the Transmission Access Review has highlighted the benefits to be gained from being able to consider changes to the electricity transmission charging methodology in conjunction with changes to the Connection and Use of System Code (CUSC). CUSC changes can trigger consequential charging methodology changes and charging methodology changes can trigger consequential CUSC changes. In such circumstances it is more efficient for the combined effect of the CUSC changes

and the charging methodology changes to be considered by a single industry working group. We think that option 3 would facilitate such a coordinated approach.

### *Question 3 – views on cost and mitigation measures*

We agree that some consideration should be given to managing the flow of work in dealing with assessing proposals for charging methodology changes in relation to distribution networks. This is particularly appropriate in relation to electricity distribution networks because of the large number of embedded generators who might raise proposals aimed at their particular circumstances, but could also be useful for gas distribution. A mechanism seems unlikely to be needed in the case of transmission, because there are fewer participants and they are well used to operating the code modification system.

Of the possible mechanisms identified by Ofgem, we think the threshold approach may be a good starting point, with an exception for modifications raised by a network operator in relation to its own network. The level of the threshold, and whether there should be an option for Ofgem to over-ride the threshold where it believed a particular proposal merited consideration, would need further consideration.

It is unclear to us that the approach of timing windows would necessarily help, since there could be a large number of modifications raised in each window. And an approach which sought to limit the number of modifications would raise tricky issues in selecting which ones to pursue in the event of over-subscription.

### *Cost questionnaire*

The cost of assessing proposed modifications for our network businesses could be significant, but we have not at this stage been able to put a precise figure on it or on the number of modifications the businesses would be likely to have to deal with.

We do not think that the implementation of Option 3 would lead to significant negative impacts on our network businesses, so long as implementation for electricity distribution took place after completion of the electricity DNO structure of charges project and was subject to a suitable filter to restrict excessive modification proposals.

We do not consider that the number of modification proposals our network user businesses might raise would be likely to raise significant compliance cost issues.

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