

WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC

Modification Proposal

Amendment Proposal: WPD/WALES/008

**Assessment and Design Fees:
Clarification relating to A & D Fees levied by WPD**

Date of Issue: 24 September 2008

For Approval by the Authority

This Modification Proposal sets out Western Power Distribution (South Wales) plc's ("WPD") proposals to amend WPD's Connection Charging Methodology contained within its Statement of the Connection Charging Methodology and Basis of Charges for Connection to Western Power Distribution (South Wales) plc's Electricity Distribution System (the "Statement").

Issue Record

Issue Date	Issue No.	Author	Amendment Details
September 2008	001	Tim Hughes	

1.0 Introduction

1.1 In accordance with Condition 13, paragraph 13.4(a) of WPD's Distribution Licence, we request a modification to our connection charging methodology.

1.2 This Modification Report sets out:

- i) the terms proposed for the modification;
- ii) how the modification would better achieve the relevant objectives; and
- iii) a date with effect from which the modification (if made) is to take effect.

1.3 The relevant objectives in Licence Condition 13, paragraph 3 state:

- (a) that compliance with the connection charging methodology facilitates the discharge by the licensee of the obligations imposed on it under the Act and by this licence;
- (b) that compliance with the connection 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 connection charging methodology results in charges which reflect, as far as is reasonably practicable (taking account of implementation costs), 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 connection charging methodology, as far as is reasonably practicable, properly takes account of developments in the licensee's distribution business.

1.4 This modification proposal addresses changes to better meet objective 13.3(a) of Licence Condition 13. The change proposed relates to the application of assessment and design fees attributed to cover the relevant costs incurred by WPD in providing an Offer for a new or augmented connection and more specifically, the timing of such fees.

2.0 Change to the timing of payment of Assessment & Design fees

2.1 Proposals for Modification

2.1.1 WPD's Statement currently includes provision to allow some assessment and design costs incurred by WPD to be recovered in advance of the issue of the Connection Offer and its acceptance by the applicant.

2.1.2 It is proposed to amend the Statement to differentiate between those applications received requesting a Connection Offer in accordance with Section 16A (2) of the Electricity Act and those of a more speculative nature where the applicant is not in a position to request a formal Connection Offer but wishes WPD to carry out some preliminary investigative work.

- 2.1.3 WPD can produce an indicative connection assessment, commonly known as a “Feasibility Study” which includes the results of network analysis and an outline of the engineering scheme to allow the connection.
- 2.1.4 A Feasibility Study provides guidance for the applicant where their capacity requirement or location are uncertain. It allows them to assess the most practicable solution for connection that will often result in a lower connection charge.
- 2.1.5 WPD will be allowed to recover the costs incurred in preparing the Feasibility Study in advance of the work being carried out as the applicant will not have requested an Offer in accordance with Section 16A (2) of the Electricity Act.

2.2 Justification for Modification

- 2.2.1 On 14 August 2008 Ofgem issued a letter (ref. A&D fees_14_08_08-123/08) concerning connections assessment and design (A&D) fees levied by Electricity Distribution Network Operators (DNOs). The letter set out Ofgem’s view on the recovery of A&D fees and in particular the timing.
- 2.2.2 Ofgem’s summary view was that;
 - The practice of upfront charging for A&D works as a pre-condition of providing a Section 16A (5) Connection Offer was not consistent with the Electricity Act;
 - A&D fees can only be recovered if the full and formal Connection Offer, the Section 16A (5) notice, is accepted by the applicant.
- 2.2.3 Ofgem requested that DNOs that currently levy upfront A&D charges as a pre-condition of providing a Connection Offer review their charging methodologies and amend them to remove upfront charging for A&D work.
- 2.2.4 Whilst WPD considers the practice of upfront charging to be a reasonable and efficient way of recovering costs we accept the advice given stating that the practice of recovering A&D costs upfront is not permitted under the relevant statutory provisions, most notably section 16A of the Electricity Act.
- 2.2.5 As a consequence WPD has examined its Statement and chosen to modify it in order to ensure it is compliant with current statutory requirements and to clarify charging arrangements for speculative enquiries.

2.3 Proposed Changes to the Statement

The amendments are shown on the clean and marked copies of WPD's Statement provided as part of this Modification Application and are listed below.

Paragraph No.	Page No.	Proposed amendment
Title page	1	Delete issue date, " <i>April 2008</i> ", and enter new date of issue, " <i>November 2008</i> ".
Table of Contents	2	Amend Section 1.2, " <i>Cost Indication and Offer</i> " to read, " <i>Cost Indication, Feasibility Study and Offer</i> ".
Table of Contents	2 & 3	Amend page numbering.
Part A, 1.1 Charging Methodology	6	Delete; <i>"Where a detailed study is required prior to the design of the scheme WPD will agree the relevant study costs and their apportionment in advance with the person seeking the connection".</i> Insert; <i>"Prior to making a formal application for an Offer for connection a person may request WPD undertake a detailed study to establish the feasibility of making a connection to WPD's System. WPD may require payment in advance of the study being made and will notify the person seeking connection of the relevant study costs".</i>
Part B, 1.2	17	Amend Section 1.2, " <i>Cost Indication and Offer</i> " to read, " <i>Cost Indication, Feasibility Study and Offer</i> ".
1.2.2	17	Insert new paragraphs 1.2.2, relating to the "Feasibility Study" <i>"A person who does not require an Offer but wishes to ascertain the viability of connecting to WPD's System (typically for a generator) may request WPD carry out some preliminary network analysis. The Cost Indication may be supplemented with an indicative connection assessment, commonly known as a "Feasibility Study", which will include the results of the network analysis and an outline of the engineering scheme to allow the connection."</i> <i>"A Feasibility Study would be of particular benefit to applicants where they have some choice or uncertainty in either the required capacity or location of connection point. The Feasibility Study can provide guidance on capacities or locations that will result in lower connection charges whereas an application for connection will be assessed against the capacity, voltage level and location requested".</i>

Paragraph No.	Page No.	Proposed amendment
1.2.3	17	Renumber paragraph "1.2.2", relating to the Offer as "1.2.3".
1.2.4	17	Renumber paragraph "1.2.3", relating to the Offer Validity as "1.2.4".
1.3	17	<p>Delete;</p> <p><i>"Where a detailed engineering study is required prior to design of the scheme WPD will agree with the applicant in advance the cost of the relevant study and its apportionment".</i></p> <p>Insert;</p> <p><i>"Prior to making a formal application for an Offer for connection a person may request WPD undertake a Feasibility Study to establish the viability of making a connection to WPD's System (see paragraph 1.2.2 above). WPD will require payment in advance of the study being made and will notify the person seeking connection of the relevant study costs prior to commencing work".</i></p> <p>And modify the last sentence from;</p> <p><i>"A table showing indicative charges for carrying out system studies is provided in Schedule 6.5" to read;</i></p> <p><i>"A table showing indicative charges for carrying out Feasibility Studies is provided in Schedule 6.5".</i></p>
1.4.1	18	<p>Amend definition of "Application Date" to remove reference to payment for the associated study work, as follows:</p> <p><i>"Application Date" is, in respect of each applicant who makes a request for connection, the date and time at which WPD receives the complete set of data which WPD deems necessary to progress the connection application. Such data requirements and the cost of the associated study work are referred to in paragraph 1.4.9 below.</i></p>
3.3.1	27	<p>Insert new final sentence to 3.3.1 relating to the provision of point of connection information;</p> <p><i>"These charges will be included within the Offer for connection".</i></p>

Paragraph No.	Page No.	Proposed amendment
3.3.2	27	Insert new final sentence to 3.3.2 relating to design approval; <i>“These charges will be included within the Offer for connection”.</i>
5.3	35	Amend paragraph 5.3 relating to “Speculative Connection Enquiries” from; <i>“WPD will provide indicative information and costs to a person making a speculative connection enquiry. Such information shall be provided for guidance only and considered non-binding. WPD will not generally charge for cost of initial investigation unless the investigation is of a complex or time consuming nature. These costs will be recovered and included in any subsequent Offer made to a person if the customer should proceed with the enquiry”</i> , to read; <i>“WPD will provide indicative information and costs to a person making a speculative connection enquiry. Such information shall be of a high level, provided for guidance only and considered non-binding. WPD will not generally charge for the cost of initial investigation unless the person seeking the connection requests that WPD carry out a more detailed Feasibility Study in which case WPD may require payment to cover its costs in advance of the study being carried out”.</i>
5.6	36	Amend paragraph 5.6 relating to “Embedded Networks”, from; <i>“ WPD will make a charge for providing point of connection information. See Section 6.6 for further details”</i> , to read; <i>“WPD’s Offer for connection will include a charge for providing point of connection information. See Section 6.6 for further details”.</i>
Table 6.4	42	Insert new sentence under Table 6.4 relating to indicative charges for design approval; <i>“Charges for design approval will be included in WPD’s Offer for connection”.</i>

Paragraph No.	Page No.	Proposed amendment
Table 6.5	43	<p>Amend all references under Table 6.5 relating to indicative charges for System Studies, from <i>“System Studies”</i> to <i>“Feasibility Studies”</i>.</p> <p>Insert new sentence under Table 6.5 stating; <i>“A person may request WPD undertake a Feasibility Study to establish the viability of making a connection to WPD’s System prior to making a formal application for an Offer for connection”</i>.</p> <p>Amend the final sentence under Table 6.5 from; <i>“Where no advance payment is requested the charge for carrying out a system study will be included within any Cost Indication or Offer”</i>, to; <i>“Where no advance payment is requested the charge for carrying out a Feasibility Study will be included within any subsequent Cost Indication or Offer made”</i>.</p>
Table 6.6	44	<p>Insert new sentence under Table 6.6 relating to indicative charges for point of connection information stating; <i>“Charges for providing point of connection information will be included in WPD’s Offer for connection”</i>.</p>
Table 6.8	48	<p>Insert new sentence under Table 6.8 relating to indicative charges for design; <i>“Charges for providing an engineering design will be included in WPD’s Offer for connection”</i>.</p>

3.0 Implementation Date

- 3.1 It is proposed to implement this modification on 1st November 2008 or, in any event, as soon as possible thereafter.