



MODIFICATION PROPOSAL ENW/2009/003

Electricity North West Limited

Proposal to amend the existing approach to capacity management for LDNO connections and associated housekeeping

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FOR APPROVAL BY THE GAS AND ELECTRICITY MARKETS AUTHORITY

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1. Description of the modification

Electricity North West Limited (ENW) proposes to amend its approach to the build of capacity during the construction of embedded licenced networks. When a new embedded licenced network connects to ENW's distribution system we have observed that the demand measured at the boundary increases over time as the network build programme progresses until the network reaches maturity. We propose that the capacity value used for DUoS charging purposes is allowed to increase in line with the recorded demand over a period of time until the maximum capacity (agreed initially with the Licenced Distribution Network Operator (LDNO)) is reached or until completion of the development (as defined), whichever is earlier.

Whilst reviewing the Use of System Charging Methodology and the Connection Charging Methodology and Connection Charging statement for the above proposed change it is felt important to bring the statements up to date. The following housekeeping changes have been identified:

- New Licence Condition numbering following the Distribution Licence Review from summer 2008;
- Consumer representative re-organisation from the enactment of the Customer Redress Act from autumn 2008;
- New contact information and provision of information following an internal review of customer service.

The proposed changes will be implemented in ENW's:

- Use of System Charging Methodology statement
- Use of System Charging statement; and
- Connection Charging Methodology and Connection Charging statement.

2. Reasons for the change with an explanation of how the proposed change better meets the relevant objectives

In recent modification proposal submissions ENW has highlighted the concern expressed by LDNOs on the effect of paying a monthly capacity charge set at the maximum capacity required when the embedded network reaches maturity. LDNOs have complained that the monthly capacity charge acts as a large fixed charge and has a negative impact on the margin available to the LDNO during the development phase of the embedded network. This proposal allows an LDNO to obtain a connection to ENW's distribution network capable of meeting the final demand expected by the embedded network with the DUoS charge levied by ENW be based on a phased capacity build up throughout the development of the embedded network until the maximum capacity is reached or until completion of the development (as defined), whichever is earlier.

This approach is responsive to the particular requests and modus operandi of IDNOs.

As discussed below this proposal better meets Relevant Objective 13.3 (c) of the Electricity Distribution Licence.

The proposed housekeeping changes bring the Connection Charging Methodology and Connection Charging statement up to date and in line with the

recent legislative and internal customer service changes. This better meets Relevant Objective 13.3(a) that compliance with the methodology facilitates the discharge by the licensee of the obligations imposed on it under the Act and by the licence.

3. Review of modification proposal by industry participants

A draft of the capacity management element of this modification proposal was circulated to the four new distribution licensees and Ofgem on 23 September 2008 for consultation and to seek their views on the proposal.

ENW received four responses prior to the closing date of 24 October 2008. In general the proposal was well received by the respondents and all welcomed the modification proposal, but some suggested amendments before they believed they could accept it.

The comments received can be summarised as follows:-

- 1) A respondent suggested that we should refer in the background to their points that levying capacity charges based on the maximum required capacity from the initial phase of the development meant that the DNO is treating an IDNO differently from a developer.
- 2) A respondent questioned whether the statements regarding reducing the maximum capacity in a connection agreement should be covered in the charging methodology statement.
- 3) A respondent questioned whether capacity charges were appropriate at all in the case of predominately domestic networks as they do not form part of the all the way tariff.
- 4) A respondent suggested that the capacity charges should be based on the maximum demand during the month.

ENW has made changes to its modification proposal in order to accommodate some these comments, where appropriate. We address each of these comments (including ENW's reasons for rejecting some suggestions) in turn below (using the numbers above for each response):-

- 1) The wording in section 2 explains clearly how ENW will deal with any IDNO going forward.
- 2) In circumstances where an IDNO approaches ENW in respect of a reduction in the Maximum Capacity at a particular location, ENW will consider an appropriate reduction in capacity, which will be achieved through agreement with the IDNO under the terms of the Bilateral Connection Agreement within DCUSA (as Ofgem and IDNOs are aware, in circumstances where agreement cannot be reached, the IDNO can use the industry determination process in order to arbitrate on the appropriate capacity). Accordingly, we have revised the wording in the draft modification and consider that this revision addresses the respondent's concerns.
- 3) This proposed modification addresses the specific issue of phased capacity charges. It is only an interim step in order to remove the impact of capacity charges during the development phase of a project before the final capacity requirement is reached. The respondent's concern in paragraph 3 above relates to a related but separate issue: i.e. whether

capacity charges for predominantly domestic developments are appropriate and whether a different form of charging is more appropriate, but these further changes cannot be finalised until the portfolio approach to charging which requires settlement data to be provided by LDNOs to DNOs is available: this process is being progressed through the Ofgem DNO/ IDNO charging working group. ENW is unable to make the further proposed modification at this time, but ENW will review the respondent's concerns when the settlement data does become available.

- 4) ENW does not consider that such an approach is appropriate as it does not "better" meet the Relevant Objectives set out in Standard Licence Condition 13.3 (in particular, it does not better meet relevant objective (c)¹) as compared to ENW's proposal (which is the appropriate test for making modifications).

In particular, capacity charges must reflect the costs incurred by ENW of making capacity available to a network user and are calculated on as an *annual charge*. Accordingly, varying the charges monthly will not be a more accurate (and therefore "better") method of reflecting the actual costs to ENW in making the capacity available.

Under ENW's proposal, when a certain capacity is reached, charges will remain at that level for 12 months to ensure that the costs of providing that capacity are fully recovered. If charges are based on maximum demand during the month, the charges will reduce if the maximum demand subsequently falls. This means that ENW will not be able to recover the true cost of the (higher) capacity facilities that it has provided to the IDNO. Accordingly, the costs of providing the capacity will not be able to be accurately recovered from the LDNO, rather they will have to be shared amongst other network users.

ENW has amended the proposed words for inclusion in the Use of System Charging Statement and the Connection Charging Methodology and Connection Charging Statement and these are detailed below.

4. Proposed wording for the methodology and charges statements

The proposed changes to ENW's Use of System Charging Methodology statement, Use of System Charging statement and Connection Charging Methodology and Connection Charging statement relating to Capacity Management for IDNO connections are:

Use of System Charging Methodology Statement

The proposed paragraphs 2.16 shown below will be inserted after paragraph 2.15 in the current Use of System Charging Methodology statement.

- 2.16 When a new embedded licensed network connects to ENW's electricity distribution network a Maximum Import Capacity (expressed in kVA) is agreed to be provided at the Connection Point. This value will be agreed with Electricity North West and the IDNO and recorded in the Bilateral Connection Agreement covering the embedded network. If phased

¹ Paragraph 13.3 (c) of the Electricity Distribution Licence states "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 in its Distribution Business".

capacity charges are required, the Bilateral Connection Agreement will also include a phased Maximum Import Capacity to recognise the development of the embedded network. A review of the phased Maximum Import Capacity will take place annually on the anniversary of the energisation of the embedded network. The chargeable supply capacity for an embedded licensed network will be calculated as described in paragraph 2.20 in the Use of System Charging Statement.

Use of System Charging Statement

The proposed heading and paragraphs 2.19 to 2.20 shown below will be inserted after paragraph 2.18 in the current Use of System Charging statement.

Embedded Distribution Networks

- 2.19 When a new embedded licensed network connects to ENW's electricity distribution network a Maximum Import Capacity (expressed in kVA) is agreed to be provided at the Connection Point. This value will be agreed with Electricity North West and the IDNO and recorded in the Bilateral Connection Agreement covering the embedded network. If phased capacity charges are required, the Bilateral Connection Agreement will also include a phased Maximum Import Capacity to recognise the development of the embedded network. A review of the phased Maximum Import Capacity will take place annually on the anniversary of the energisation of the embedded network. Any proposed changes to capacity identified in a review would be dealt with by agreement between the IDNO and Electricity North West in line with the terms of the Bilateral Connection Agreement.
- 2.20 During the Development Period (which shall mean the period commencing on the energisation of the site and ending a maximum of three years after this date or upon completion of the development (i.e. when all the premises on the development are energised), whichever is earlier and the Development Period may be extended, upon request by the IDNO, at the discretion of the Electricity North West in exceptional circumstances) the chargeable supply capacity (kVA) for an embedded network shall, for any month, be the highest of the Supply Capacity in that month or the Supply Capacity in any of the previous eleven months. Outside this period the chargeable supply capacity (kVA) for an embedded network shall, for any month, be the highest of the Supply Capacity in that month or the Supply Capacity in any of the previous eleven months or the Maximum Import Capacity.

In addition, the statement will be amended by:

- deleting the last sentence of paragraph 2.14 and the reference to IDNO in paragraph 2.15 so that all the references to the capacity management for IDNOs is only in the new paragraphs; and
- changing the specific term IDNO (Independent Distribution Network Operator) to the generic term LDNO so that the existing and new clauses capture all distribution network operators which manage embedded networks connected to ENW's electricity distribution network.

Connection Charging Methodology and Connection Charging Statement

The proposed heading and paragraphs 6.28 shown below will be inserted after paragraph 6.27 in the current Connection Charging Methodology and Connection Charging statement.

Embedded Distribution Networks

6.28 When a new embedded licensed network connects to ENW's electricity distribution network a Maximum Import Capacity (expressed in kVA) is agreed to be provided at the Connection Point. This value will be agreed with Electricity North West and the IDNO and recorded in the Bilateral Connection Agreement covering the embedded network. If phased capacity charges are required, the Bilateral Connection Agreement will also include a phased Maximum Import Capacity to recognise the development of the embedded network. A review of the phased Maximum Import Capacity will take place annually on the anniversary of the energisation of the embedded network. The chargeable supply capacity for an embedded licensed network will be calculated as described in paragraph 2.20 in the Use of System Charging Statement.

The proposed housekeeping changes to ENW's Connection Charging Methodology and Connection Charging statement are:

Section 1

1.3 Electricity North West are obliged, under Licence Condition 13, paragraph 1(a), of its Electricity Distribution Licence, to prepare a statement approved by the Authority setting out the methodology upon which charges will be made for connection to our electricity distribution network. We are also obliged to review our connection charging methodology annually in accordance with Licence Condition 13, paragraph 2(a) and in order to comply with paragraph 2(b) make such modifications to the Connection Charging Methodology Statement that better achieve the 'relevant objectives'² as defined in paragraph 3 of Condition 13.

Section 2

2.1 If you need a new, increased or reduced connection to our distribution network, you should apply to the appropriate United Utilities Electricity Services office, as detailed in Section 9. Which office is the appropriate one will depend on the nature of your request. Whether you elect for a statutory connection or a competitive connection it will be necessary for you or your contractor to complete an application for a new supply. The form should be fully completed and returned with a location plan and a site layout plan.

Demand Connections

2.2 If you need a new connection and wish to nominate Electricity North West's agent United Utilities Electricity Services as being solely responsible for both the non-contestable and contestable elements of the new connection you should apply by completing an application form. An application form can be obtained by either writing to or visiting our office at:

United Utilities Electricity Services Ltd.
PO Box 426,
Oakland House,
Talbot Road,
Manchester.
M16 0HQ

or by telephoning us on 08450 500108

or by downloading it from our website at [United Utilities](#).

Or an application can also be made online at [United Utilities](#).

- 2.3 If you need a new connection and elect to appoint an accredited installer to carry out the contestable work, the installer can apply on your behalf for a Point of Connection (POC). However, the installer will need a letter of authority from you. A list of accredited installers permitted to carry out contestable activities can be obtained from the Lloyds website, as listed in Section 9.
- 2.4 If you wish to make changes to an existing connection then you should apply to the appropriate office as listed in Section 9 depending on your location and the maximum power required. Work falling into this category includes additional loads/capacity, reductions in load/capacity, service alterations, terminations and disconnections.

The paragraph numbering throughout will be amended accordingly.

- 2.13 In order for Electricity North West's agent United Utilities Electricity to assess your request and provide a quotation or point of connection they will need information to enable them to do this. If you do not provide this information it will prevent us dealing with your enquiry as quickly as we would like to. The information they will need is:

Plus an additional sub bullet on the last bullet under the re-word paragraph 2.13:

- Details of any other equipment that can interfere with the electrical supplies of other customers.

Section 5

- 5.14 If you have installed or intend to install on-site generation and need a connection to Electricity North West's distribution network to take a supply from it at any time (either intermittent or continuous), the principles for determining the charge for the connection will be in accordance with this statement. Whilst the principles for determining the generation use of system charges will be in accordance with our Licence Condition 14 'Statement of Charging Methodology for Use of Electricity North West's Electricity Distribution Network' document. To apply for a connection to generate electricity please write to United Utilities Electricity Services Terms and Conditions Manager at the address listed in Section 9. You should also contact us to discuss the relevant requirements of the Distribution Code and the Grid Code, which relate to your on-site generation.

Section 8

- 8.1 If you are unhappy with the terms or charges offered by Electricity North West then in the first instance approach us.

- 8.2 Electricity North West customer service contact details are:
Connections Enquiry Manager
United Utilities Electricity Services Limited
PO Box 426
Oakland House
Talbot Road
Manchester
M16 0HQ
Telephone: 08450 500108
[United Utilities](#)
- 8.3 If agreement with Electricity North West cannot be reached within the parameters of the complaints process, then you may wish to approach the Energy Ombudsman. They are an independent body who will investigate consumer complaints or disputes but will expect you to do this only if you have first of all followed the Electricity North West's complaints process and not reached a satisfactory resolution.
- 8.4 The Energy Ombudsman contact details are:
The Energy Ombudsman
PO Box 966
Warrington
WA4 9DF
Telephone: 08450 550760
www.energy-ombudsman.org.uk
- 8.5 If the Energy Ombudsman and United Utilities Electricity Services are unable to resolve your dispute, then either party may request determination of the dispute by the Gas and Electricity Markets Authority (GEMA).
- 8.6 For further information on determinations go to Ofgem's determination website at www.ofgem.gov.uk.

Section 9

Contact details

New connection enquiries

For all statutory connections, modifications to existing supplies (with a capacity greater than 60 kVA) & installations by an accredited installer apply to our agent:

- 9.1 United Utilities Electricity Services Limited
Oakland House
Talbot Road
Manchester
M16 0HQ
Telephone: 08450 500108

Connections for generating electricity

- 9.2 Terms and Conditions Manager

United Utilities Electricity Services Limited
Hartington Road
Preston
PR1 8LE
Telephone: 08450 500108

Terms and conditions (including applications for reductions in load)

9.3 Terms and Conditions Manager
United Utilities Electricity Services Limited
Hartington Road
Preston
PR1 8LE
Telephone: 08450 500108

Modifications to an existing connection with capacity less than/up to 60 kVA

9.4 Customer Services
United Utilities Electricity Services Limited
Hartington Road
Preston
PR1 8LE
Telephone: 0800 1951452

Diversions & removal of assets not associated with a new or modified connection

9.5 Customer Services
United Utilities Electricity Services Limited
Hartington Road
Preston
PR1 8LE
Telephone: 0800 1951452

5. A timetable for the implementation of the modification

ENW intends to publish the amended Licence Condition Statements within one month following a non-veto decision from the Authority.

Appendix 1 – Illustrative table of the information to be contained in the Bilateral Connection Agreement

	Year 1		Year 2		Year 3	
	Half year	Year end	Half year	Year end	Half year	Year end
Phased Capacity Requirements(kVA)						