

<b>Modification of Condition 13 Connection Charging Methodology Statement for 2008/09</b>		<b>SHEPD/08/003</b>
<b>Title: Proposed revisions within the approved Statement of Charging Methodology for Connection to Scottish Hydro Electric Power Distribution plc's Distribution System: 2008-09</b>		
<b>Organisation Name:</b>		Scottish Hydro Electric Power Distribution plc
Details of Proposer:	Name:	Malcolm Burns, Regulation Manager
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<b>Description of Proposed Modifications:</b>		
<p>Following a review of the existing approved SHEPD Connection Methodology Statement, pursuant to Condition 13.2 of the Electricity Distribution Licence, the following modifications are proposed as detailed below.</p>		
<p>1. In "Glossary", insert a new term and definition:</p> <p><i>"LDNO" means a distribution network operator authorised by a licence granted under the Act to undertake the distribution of electricity and shall include an IDNO Party as defined in the DCUSA.</i></p>		
<p>2. In Section 5 (Connection issues and specific exclusions), insert a new item 7, as detailed below:</p> <p><b>7. Embedded Distribution Networks</b></p> <p>7.1 <i>Where a Connection is provided to an LDNO licensed distribution network embedded within the Company's network, the level of demand recorded at the connection point between the Company's network and the LDNO network may take a period of time to materialise to the extent of the maximum available capacity stated in the Connection Agreement between the Company and the LDNO (the "Maximum Capacity").</i></p> <p>7.2 <i>Where capacity charges are applicable to such an LDNO network connection, the availability charge shall initially be based on the recorded demand in the month or the highest recorded demand in any previous month since energisation of the Connection, whichever is the higher value.</i></p> <p>7.3 <i>The Company will review the level of the Maximum Capacity in conjunction with the LDNO and this review will take place three years from the date of energisation of the Connection for the licensed embedded distribution network.</i></p> <p>7.4 <i>If, during this review, the LDNO chooses to relinquish any proportion of the Maximum Capacity, the released capacity will be made available for use by the</i></p>		

*Company's other customers and the Maximum Capacity in the Connection Agreement will be reduced to match the LDNO's required reserve capacity level.*

*7.5 Following this review, the availability charge will equal the applicable Maximum Capacity in the Connection Agreement, with effect from the month following the review.*

*7.6 If, at any time prior to or following this review, the LDNO should require to increase the Maximum Capacity, the LDNO should apply to the Company in the normal way and further connection charges may apply.*

These modifications are proposed to facilitate better achievement of Relevant Objective 13.3(b). This Objective states “that compliance with the 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”.

Currently, the capacity used by SHEPD for use of system charging purposes from energisation of a connection to an LDNO network is the maximum capacity applied for by the LDNO. This level of capacity is stated as the maximum capacity within the connection agreement between the parties.

The proposed modification recognises that LDNO networks generally experience a period of growth, as customer numbers and electrical requirements develop, prior to reaching a settled level of demand. Through the introduction of an initial period during which the capacity used for use of system charging purposes follows recorded demands, this proposed modification addresses a potential barrier to competition affecting the development of embedded distribution networks within the SHEPD licensed area.

The proposal to base capacity charges on actual levels of demand during the initial growth period of the LDNO network obviates requirements for periodic submission and review of demand forecasts, which may or may not accurately reflect the actual capacity requirements of the LDNO network and which may require subsequent reconciliation. The efficiency of ongoing administration and management of a capacity ramping arrangement have been significant considerations in developing these proposals, given that industry expectations point to rising numbers of such networks.

A time boundary to the application of the demand growth methodology is proposed by SHEPD in recognition of it's other obligations to develop, maintain and operate an efficient, co-ordinated and economical system for the distribution of electricity. In so doing, SHEPD seeks to avoid open-ended, or inappropriately lengthy, commitments to reserved capacity which potentially could affect system reinforcement considerations.

**Proposed wording for the statement:**

The proposed changes are shown in revision-marking in the accompanying marked-up copy of SHEPD's Connection Charging Methodology Statement for 2008/09, current at the date of submission of these proposals. If the Authority does not veto these proposals, the changes shall be incorporated into the Statement current at the date of such non-veto.

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**Proposed timetable for implementation of the modification changes:**

If the Authority indicates non-veto of these proposals by 13<sup>th</sup> March 2009, it is proposed that the modified version of the connection methodology statement will apply from 20<sup>th</sup> March 2009 (or such earlier date as the date of notification of non-veto may permit). If the Authority indicates non-veto of these proposals after 13<sup>th</sup> March 2009, it is proposed that the modified version of the connection methodology statement will apply from a date within one week from receipt of notification of such non-veto.

It should be noted that, to enable implementation of these proposals, a corresponding modification to the SHEPD Use of System Charging Methodology is required and SHEPD has submitted such a modification proposal.

**Consultations**

The proposed modifications are intended to respond to concerns expressed by LDNOs in industry forums with regard to the application of capacity charges. It is understood that Ofgem have encouraged distributors to make proposals in response to these concerns and as such no specific consultation is understood to be required.