

Modification of Condition 13 Use of System Charging Methodology Statement		SHEPD/08/004
Title: Proposed revisions within the Statement of Charging Methodology for Use of Scottish Hydro Electric Power Distribution plc's Distribution System		
Organisation Name:		Scottish Hydro Electric Power Distribution plc
Details of Proposer:	Name:	Malcolm Burns, Regulation Manager
	Organisation:	Scottish and Southern Energy plc
	Telephone number:	01738 456571
	Email address:	malcolm.burns@scottish-southern.co.uk
Description of Proposed Modifications:		
<p>Following a review of the existing approved Statement of Charging Methodology for Use of Scottish Hydro Electric Power Distribution plc's Distribution System pursuant to Condition 13.2 of the Electricity Distribution Licence, the following amendments are proposed as detailed below:</p>		
<p>1. Cover and contents pages:</p> <p>Replace document title with: <i>“Statement of Charging Methodology for Use of Scottish Hydro Electric Power Distribution plc's Distribution System: 2008-09”</i></p> <p>Delete: <i>“The text has not been modified for 2006/07 except for the addition of Appendix 1”</i></p> <p>Replace (in both cover and contents pages): <i>“Scottish Hydro-Electric Power Distribution Ltd”</i> with <i>“Scottish Hydro Electric Power Distribution plc”</i></p> <p>These modifications are proposed to facilitate better achievement of Relevant Objective 13.3(d) by reflecting developments in the Licensee's Distribution Business and to delete obsolete date references.</p> <p>All further references within the document to “Scottish Hydro-Electric Power Distribution Ltd” are to be replaced with “Scottish Hydro Electric Power Distribution plc”</p>		
<p>2. “General Introduction” section:</p> <p>In “Who we are”: Replace in Line 2: <i>“Scottish Hydro-Electric Transmission Ltd”</i></p>		

with

“Scottish Hydro Electric Transmission Ltd”

In “Licence Obligations”, in line 2 of the first paragraph delete:

“2006/7”

These modifications are proposed to facilitate better achievement of Relevant Objective 13.3(d) by reflecting developments in the Licensee’s Distribution Business and wider company group and to delete an obsolete date reference.

3. “Use of System Charging Principles” section:

Replace the second sentence of the second paragraph of Item 6 with:

“With the exception of licensed Embedded Distribution Networks (see 15 below), this charge will be based on the agreed available capacity when the connection is first provided, or a modification made to existing connection arrangements”

Insert a new Item 15:

15. Embedded Distribution Networks

15.1 Where a connection is provided to an LDNO licensed distribution network embedded within the SHEPD network, the level of demand recorded at the connection point between the SHEPD 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 SHEPD and the LDNO (the “Maximum Capacity”).

15.2 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.

15.3 SHEPD 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.

15.4 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 SHEPD’s other customers and the Maximum Capacity in the connection agreement will be reduced to match the LDNO’s required capacity level.

15.5 Following this review, the availability charge supply capacity will match the applicable Maximum Capacity in the Connection Agreement, with effect from the month following the review.

15.6 If, at any time prior to or following this review, the LDNO should require to increase the Maximum Capacity, the LDNO should apply to SHEPD in the manner

described in SHEPD's Statement of Charging Methodology for Connection.

The capacity ramping proposal is 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 licenced 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 unnecessary system reinforcements as a potential consequence of open-ended, or inappropriately lengthy, commitments to reserved capacity.

4. “Use of System Methodology – Generation Tariffs” section:

In the first sentence of the “Introduction” section, delete:

“for 2006/07”

This modification is proposed to delete an obsolete date reference.

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5. “Glossary of Terms”

Insert new definition:

“LDNO”

“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 ”

This modification is proposed to facilitate the capacity ramping proposal above.

13. Appendix 1:

General Information, Item 1.1, delete:

“in 2006/7”

This modification is proposed to delete an obsolete date reference.

Proposed wording for the statement:

The proposed changes are shown in revision-marking in the accompanying marked-up copy of SHEPD’s Use of System Charging Methodology Statement, current at the date of submission of these proposals.

Proposed timetable for implementation of the modification changes:

If the Authority indicates non-veto of these proposals by 13th March 2009, it is proposed that the modified version of the connection methodology statement will apply from 20th 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 13th 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 Statement of Charging Methodology for Connection is required and SHEPD has submitted such a modification proposal.

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Consultations

The majority of the proposed modifications are of a general update and correction nature and as such no industry consultation is understood to be necessary.

The proposed modifications relating to LDNO capacity “ramping” 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