



MODIFICATION REPORT

SP Energy Networks

**Mod. Proposal SPEN-09-01
Changes to Connection Charging Statement to reflect
“Capacity Ramping” arrangements for IDNOs
Date of Issue: 13th March 2009**

For approval by the Authority

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2. SCOPE

This Modification Application is submitted by SP Energy Networks (SPEN) on behalf of SP Distribution Ltd and SP Manweb Plc¹.

This report sets out the proposed modification to SP Distribution and SP Manweb’s Connection Charging Methodologies, in respect of capacity build up (or “capacity ramping”) for embedded Licensed Distribution Network Operators (LDNOs).

3. ISSUE AUTHORITY

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¹ SPEN is the public facing identity of SP Distribution Ltd (SPD), SP Manweb Plc (SPM) and SP Transmission Ltd (SPT). SPD is a licensed electricity distribution business, which owns and operates networks in south and central Scotland. SPM is a licensed electricity distribution business which owns and operates networks in Merseyside, Cheshire and North Wales.

4. PROPOSED MODIFICATION

4.1. Description of the proposal

SPEN proposes to amend its approach to the treatment of capacity during the construction phase of embedded LDNOs. The proposed modification recognises that embedded LDNO networks generally experience a period of growth from their energisation date, as customer numbers and electrical requirements develop, prior to reaching a settled period of demand. By mirroring this “ramping” growth profile, this proposal addresses the potential margin issues experienced by embedded LDNOs prior to the development reaching maturity, where applicable.

The proposed change introduces an incremental or “ramping” approach to managing and monitoring the capacity requirement of an embedded LDNO. The ramping effect will normally be allowed over a three-year period (which could be extended to a five-year period in certain circumstances, if this is requested by the LDNO and agreed by SPEN). Upon application for a new connection, SPEN and the embedded LDNO shall agree a profile of capacity requirements, as shown below:

Embedded LDSO:		Capacity forecast (kVA)		
Host LDSO:				
Date submission:				
Date first energisation:				
MPAN ID (Pseudo-MPAN)	Maximum fully developed load (kVA)	+ 1 year	+ 2 years	+ 3 years

SPEN will review the need for this capacity annually, and no sooner than one year after the connection has been energised. Any spare capacity identified in these reviews may be freed for use by other customers. Should additional capacity be subsequently required, application should be made as per the normal procedure.

In addition to this change to the Connection Charging Methodology, we also propose a linked modification to the Use of System Methodology Statement and the Use of System Charging Statement, which are described in Mod. Proposal SPEN-09-02, submitted in parallel to this Proposal.

4.2. How the proposal better meets licence conditions

Embedded LDNOs have expressed that the effect of paying a monthly capacity charge set at the Maximum Required Capacity for the fully developed site (i.e., the capacity required when the development reaches maturity) acts as a large fixed charge which cannot be recovered from their end customers in a like-for-like way, and therefore has a negative impact on the margin available to the LDNO during the development phase of the embedded network.

The proposed treatment of ramping capacity mirrors the way in which capacity requirements builds up for embedded LDNO connection. The proposal removes potential barriers to competition and its implementation better meets the objective that the Connection Charging Methodology “[...] does not restrict, distort, or prevent competition in the transmission or distribution of electricity”, as stated in Standard Condition 13 Paragraph 13.3 (b) of our distribution licences².

² The Relevant Objectives as stated in SC 13 are:

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;

4.3. Proposed wording of the Connection Charging Methodology Statement

In Section 2 (Connection Charging Methodology), insert a new item 2.8 as detailed below:

2.8 Embedded Licensed Distribution Network Operators

Where connection is made to an embedded distribution network operated by another licensed distribution operator, demand at the boundary may grow over an extended period of time, prior to that network being fully developed. Upon application for a new connection, the licensed distribution operators shall agree a profile of capacity requirements. A “ramping” effect will normally be allowed over a three-year period (which could be extended to a five-year period in certain circumstances, if this is requested by the LDNO and agreed by SP [Distribution/Manweb]). SP [Distribution/Manweb] will review the need for this capacity annually, and no sooner than one year after the connection has been energised. Any spare capacity identified in these reviews may be freed for use by other customers. Should additional capacity be subsequently required, application should be made as per Section 3 of this document and further connection charges may apply.

Where, following a joint review, the embedded network operator wishes to reserve, for the long term, spare capacity which would otherwise be released for general use, this may be accommodated by adjusting the capacity used for DUoS charging purposes to the required reserve level.

4.4. Consultation process

This issue has been discussed at the closed IDNO-DNO meetings hosted by Ofgem during 2008. A paper was produced by the group, with inputs from IDNOs and DNOs, and where the ramping approach was endorsed by both groups.

4.5. Timetable for implementation of the modification

It is proposed to implement the above changes to the Connection Charging Statement within two weeks of receiving a “non-veto” decision by the Authority.

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- 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.