MODIFICATION REPORT

SP Energy Networks

Mod. Proposal SPEN-09-02
Changes to Use of System methodology 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 Plc[1].

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

Author	Owner	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 modify its Use of System Charging Methodology to allow "ramping" of the chargeable import capacity to embedded Licensed Distribution Network Operator (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.

The proposed change introduces an incremental approach to chargeable capacity for LDNO connections that are subjected to capacity charges. 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.

In addition to this change to the Use of System Charging Methodology, we also propose a linked modification to the Use of System Charging Statement, also described in this modification report, as well as a linked change to the Connection Charging Methodology, which is described in Mod. Proposal SPEN-09-01 submitted in parallel to this Proposal.

4.2. How the proposal better meets licence conditions

Embedded LDNOs have argued that the effect of paying a monthly capacity charge set at the Maximum 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 build up for embedded LDNO connections. 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 Licences[2].

4.3. Proposed wording of the Use of System Methodology Statement

In Section 3.4 (Determine Yardstick Tariffs for Yardstick Customers), insert a new paragraph under the second bullet point which described yardstick elements / Capacity Charges as detailed below (new text marked in red):

- Capacity Charge – for customers with half-hourly metering (generally with a demand greater than 100kW) this will include asset related costs at the voltage of connection.

Capacity charges are included to ensure that assets are sized for optimum utilisation on an enduring basis. Other than as provided below, cCapacity charges are levied on an annual basis for the year commencing 1 April. To ensure over-sized assets are not requested by customers there are restrictions on when the requested capacity can be reduced. Where the capacity

[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;
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.

requested is exceeded then charges will be levied at the increased capacity back to 1 April. Customers who exceed their declared capacity are expected to request an increase in their supply arrangement and pay for any reinforcement necessary in accordance with our connection charge methodology and statement.

No reduction in the requested capacity will normally be permitted for a period of 5 years from the date that the capacity was first made available at the premises. This is to reflect the ongoing operation and maintenance costs of maintaining the assets installed to provide the connection. Further details can be found in the charging statement.

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. In these circumstances, the chargeable import capacity will be allowed to grow over time, in line with demand, up to the requested capacity as agreed in the relevant connection terms.

4.4. Proposed wording of the Use of System Charging Statement

SPEN is also proposing to introduce changes to its Use of System Charging Statement for clarity. Although the Authority only approves the *form* of the Use of System Charging Statement, the changes are listed in this proposal for completeness.

The following paragraph 2.18 will be inserted under the "Chargeable Import Capacity" heading:

2.18 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 the development being fully developed. In these circumstances, the Chargeable Import Capacity will be the historical maximum of the kVA of Maximum Demand from 1 April in the current charging year.

4.5. 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.

4.6. Timetable for implementation of the modification

It is proposed to implement the above changes to the statements within two weeks of receiving a "non-veto" decision by the Authority.