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value for all customers*

Company Secretary
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cc: Oliver Day and Paul Measday
(by email only)

Your Ref: Connections Mod 26
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6 May 2009

Dear Colleague,

Decision in relation to EDF Energy Networks Limited connection charging methodology modification proposal 26: Capacity management for Licensed Distribution Network Operators (LDNOs)

On 8 April 2009, EDF Energy Networks Limited (EDFEN) submitted a proposal to the Gas and Electricity Markets Authority ("the Authority")¹ to modify its connection charging methodology for its London (LPN), South East (SPN) and East of England (EPN) licensed distribution networks ("the EDF Networks").

EDFEN has proposed to introduce a new method to deal with capacity requirements for Independent DNOs (IDNOs) and DNOs operating out of area², which involves adjustments to the EDF Networks' Use of System (UoS) and connection charging methodology statements. This letter refers to the changes made to the connection charging methodology statement.

Having considered the issues raised in the proposal, we have decided **not to veto** the proposed modification.

This letter sets out the background to the modification proposal, summarises the proposed changes and explains our decision.

Background

The EDF Networks have licence obligations³ to have in place as of 1 April 2005 three charging statements: the statement of UoS charging methodology, the statement of UoS charges and the statement of connection charging methodology and charges. The connection charging methodology outlines the method by which connection charges are calculated. The EDF Networks have a requirement to keep the methodology under review and bring forward the proposals to modify the methodology that they consider better achieve the relevant objectives⁴.

¹ Ofgem is the office of the Authority. The terms 'Ofgem' and 'the Authority' are used interchangeably in this letter.

² Hereafter referred to as LDNOs.

³ Standard licence conditions 13-14.

⁴ The relevant objectives for the connection charging methodology, as contained in paragraph 13.3 of standard licence condition 13 of the licence are:

- (a) that compliance with the connection charging methodology facilitates the discharge by the licensee of the obligations imposed on it under the Electricity Act 1989 and by this licence;
- (b) that compliance with the connection charging methodology facilitates competition in 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 changes which reflect, as far as is reasonably practicable (taking into account of implementation costs), the costs incurred by the licensee and its distribution business; and
- (d) that, so far as is consistent with sub-paragraphs (a), (b) and (c), the UoS charging methodology, as far as is practicable, properly takes account of developments in the licensee's distribution business.

The IDNO/DNO boundary charging working group was established in October 2008 to develop common charging arrangements for IDNO customers. The modification reflects the proposal developed as part of this working group.

EDFEN modification proposal

EDFEN's proposal can be understood by reading together the connection methodology and the UoS methodology.

- EDFEN's connection methodology proposal outlines arrangements for capacity build-up on LDNO networks within its connection charging methodology statement. EDFEN sets out that where capacity charges are levied for UoS charging purposes the charged UoS capacity will not be based on the capacity that is used for connection charging purposes (where the agreed connection capacity mirrors the Maximum Power Requirement for UoS charging purposes). Instead, the charged UoS capacity will be allowed to ramp up over 36 months with a zero kVA starting capacity.
- In the UoS methodology, EDFEN's proposal (UoS Mod 27) states that an LDNO would initially attract zero UoS capacity charges which will then ramp up over 36 months in line with maximum monthly demand to date.

Ofgem's decision

We have considered the proposal to modify the connection methodology against the relevant objectives and our wider statutory duties. A connection charge based on the predicted total capacity requirement of a fully developed network (referred to as the Maximum Power Requirement by EDFEN) reflects the costs incurred by EDF Networks in their distribution businesses, and encourages efficient network development. During the 36-month capacity ramp up period the LDNO may request a lower Maximum Power Requirement. Beyond 36 months the LDNO pays UoS charges based on its total capacity requirement which means that there is an incentive on the LDNO not to overstate its long term capacity requirements. We consider that this modification results in improved clarity as it encourages an LDNO to come forward with an honest appraisal of its maximum capacity requirements as a site develops over time and it ties together UoS and connection charging concepts for LDNO charges. The inclusion of this provision thereby enables the EDF Networks to properly take account of developments in their businesses in accordance with 13.3(d).

It should be noted that the processes and legal tests in relation to modifications and the Competition Act 1998 investigations on IDNO matters are separate and distinct. Therefore, in taking this decision, Ofgem does not limit or prejudice any findings which the Authority may make in relation to the current investigation of Electricity North West Limited under the Competition Act 1998.

On the basis that we consider that the proposal better achieves the relevant objective under SLC13(d) we have decided **not to veto** the modification to the connection charging methodology statements.

Please contact Colette Schrier by email colette.schrier@ofgem.gov.uk or on 0207 901 7341 if you have any queries relating to issues raised in this letter.

Yours faithfully,



Rachel Fletcher
Director, Distribution

Signed on behalf of the Authority and authorised for that purpose by the Authority