

Modification proposal:	Amendment proposal to Central Networks East Plc's Connection Charging Methodology: Assessment and design fees, worked examples and indicative charge tables (CNE Mod 090715)		
Decision:	The Authority ¹ directs that this proposal is not vetoed ²		
Target audience:	DNOs, IDNOs, Suppliers, Generators and other interested parties		
Date of publication:	14 August 2009	Implementation Date:	1 September 2009

Background to the modification proposal

In accordance with standard licence condition ("SLC") 13 of its Electricity Distribution Licence, Central Networks East Plc (CN) is required to have in force at all times a Use of System Charging Methodology and a Connection Charging Methodology which the Authority has approved on the basis that it achieves the Relevant Objectives³. The Connection Charging Methodology outlines the method by which connection charges are determined. CN must review its methodology at least once every year and make such modifications (if any) of the methodology as are necessary for the purpose of better achieving the Relevant Objectives.

On 14 August 2008, Ofgem issued a consultation on the practice of charging upfront assessment and design (A&D) fees⁴. The consultation document outlined the Authority's view that the practice of charging upfront A&D fees was not consistent with the Electricity Act 1989 ("the Act"). The Authority's consultation letter explained that:

- the practice of upfront charging for A&D works as a pre-condition of providing a section 16A(5) connection offer is not consistent with the Act;
- A&D fees can only be recovered if the full and formal connection offer, the section 16A(5) notice, is accepted by the customer; and
- A&D fees fall within section 19(1) of the Act as they are expenses incurred in respect of making the connection (i.e. where any electric line or plant is provided as long as they are reasonably incurred as required by that section).

The August consultation stressed that Ofgem was concerned that distributors' Connection Charging Methodologies might not be compliant with the Act. We therefore invited

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

³ The 'Relevant Objectives' for the connection charging methodology, as contained in paragraph 3 of Standard Licence Condition 13 of the licence are:

- (a) that compliance with the 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 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 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 methodology, as far as is reasonably practicable, properly takes account of developments in the licensee's Distribution Business.

⁴ Please see 'Connections Assessment and Design (A&D) fees levied by Electricity Distribution Network Operators (DNOs)' (Ref 123/08)

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=A%20and%20D%20fees%20consultation.pdf&refer=Networks/Connectns/Conn>

distributors to review their Methodologies and raise the necessary changes in the form of modification proposals.

The modification proposal

On 17 July 2009, CN submitted a proposal to the Authority to modify its Connection Charging Methodology⁵. CN propose to modify their Connection Charging Methodology by making the following changes:

- i. Add wording to make it clear that A&D fees are included as part of the connection charge but are not charged for upfront. CN note that whilst this would not constitute a change to their current approach to charging for A&D fees, it would ensure that their Connection Charging Methodology is consistent with their current practice and with existing statutory arrangements, and would improve the transparency and clarity of their methodology.
- ii. Introduce four new worked examples that cover types of connection schemes that CN have found increasingly common.
- iii. Remove one worked example that covers a type of connection scheme that CN have yet to receive a request for.
- iv. Make adjustments to the items for which indicative charges are provided for in order to add detail and to more accurately reflect typical connection schemes.
- v. Change the categories by which CN charge Application and Administration charges from Simple, Complex and Complicated to LV, HV and EHV.
- vi. Add wording to make it clear that a charge may be made for site visits for the purpose of witness testing contestable works installed by Independent Connection Providers.

Reasons for the Authority's decision

In coming to its decision not to veto this proposal, the Authority has considered the proposed modification against the Relevant Objectives and the Authority's wider statutory duties⁶. The specific reasons for our decision are detailed below.

Relevant Objective (a) - that compliance with the methodology facilitates the discharge by the licensee of the obligations imposed on it under the Electricity Act 1989 and by its licence

We consider that part (i) of their proposal (see above) better facilitates Relevant Objective (a) for the reasons set out below:

CN's proposal seeks to amend its methodology so that it is clear that A&D fees are not levied upfront where the customer has made a formal request for a connection in accordance with the Act. CN consider that its proposal will ensure that its methodology is clear and consistent with its statutory obligations.

We consider that CN's proposal will make it clear that they do not charge for A&D fees upfront and that its methodology is consistent with their statutory obligations in this respect. Consequently, we consider that its proposal will better achieve Relevant Objective (a).

⁵ A copy of CN's modification report can be found on Ofgem's website at <http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgMods/Pages/DistChrgMods.aspx>

⁶ The Authority's statutory duties are detailed mainly in the Electricity Act 1989, Gas Act 1986, Utilities Act 2000, Competition Act 1998, Enterprise Act 2002 and the Energy Act 2004 as well as arising from directly effective E.C legislation.

Relevant Objective (d) - that, so far as is consistent with Relevant Objectives (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.

We consider that parts ii) to vi) of CN's proposal better facilitate Relevant Objective (d) for the reasons set out below:

We consider that CN's proposals in these areas will ensure that its methodology more accurately reflect its current practice and the connection scenarios that it is typically required to implement. We therefore consider that CN's proposal takes account of developments in its distribution business and will better achieve Relevant Objective (d).

In addition to the methodology changes listed above, CN has updated its illustrative charges. We are not commenting on the level of these revised charges in this decision as they are not captured in the change process for Charging Methodologies, as set out in SLC 13.

If you have any questions relating to the issues discussed in this letter please contact Donald Smith at donald.smith@ofgem.gov.uk or on 0207 901 7483.

A handwritten signature in black ink, appearing to read 'Rachel Fletcher', is written over a light grey rectangular background.

Rachel Fletcher,
Rachel Fletcher, Director Distribution
Signed on behalf of the Authority and authorised for that purpose