

Modification proposal:	<b>Amendment proposal to ESP Electricity Ltd's Use of System Charging Methodology: References to Standard Licence Conditions of the Electricity Distribution Licence (ESP Mod 001)</b>		
Decision:	The Authority <sup>1</sup> directs that this proposal is not vetoed <sup>2</sup>		
Target audience:	DNOs, IDNOs, Suppliers, Generators and other interested parties		
Date of publication:	3 September 2009	Implementation Date:	1 October 2009

## Background to the modification proposal

In accordance with standard licence condition ("SLC") 13 of its Electricity Distribution Licence ("the Licence"), ESP Electricity Ltd ("ESP") 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 Objectives<sup>3</sup>. The Use of System Charging Methodology outlines the method by which use of system charges are determined. ESP 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.

In March 2007, Ofgem launched the Distribution Licence Review ("DLR"). This reviewed the SLCs of the Licence<sup>4</sup> and introduced a revised set of SLCs on 1 June 2008. A result of the DLR was that the numbering of all SLCs changed. Consequently, documents referencing the Licence have had to be updated to ensure consistency with the revised SLCs.

## The modification proposal

On 6 August 2009, ESP submitted a proposal to the Authority to modify its Use of System Charging Methodology<sup>5</sup>. ESP proposes to modify its Use of System Charging Methodology by making the following changes:

- i. Changing references to SLC 4 and SLC 4a to SLC 13 and SLC 14 respectively.
- ii. Changing a reference to SLC BA1 to a reference to its Licence generally.

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

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

<sup>3</sup> 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.

<sup>4</sup> For further details of the Distribution Licence Review please see the Ofgem website -

<http://www.ofgem.gov.uk/Networks/ElecDist/Policy/Pages/Policy.aspx>

<sup>5</sup> A copy of ESP's modification report can be found here -

<http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgMods/Pages/DistChrgMods.aspx>

## **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 duties<sup>6</sup>. 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.**

ESP's proposal seeks to align its Use of System Charging Methodology with the SLCs of the Licence that were introduced following the conclusion of the DLR on 1 June 2008. ESP considers that its proposal will ensure that its methodology is clear and consistent with its licence obligations.

We consider that ESP's proposal is consistent with its obligation under SLC 13 to have in place at all times a Use of System Charging Methodology that is a complete and documented explanation, presented in a coherent and consistent manner, of the methods, principles and assumptions that apply for determining the licensee's use of system charges. Consequently, we consider that the proposal will better achieve Relevant Objective (a).

### **Relevant Objective (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.**

ESP's proposal aligns its Use of System Charging Methodology with changes to its Licence. We consider that by doing so ESP are properly taking into account a development in their distribution business in a manner that is both reasonably practicable and consistent with Relevant Objectives (a), (b) and (c). Consequently, we consider that the proposal will better achieve Relevant Objective (d).

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



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

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<sup>6</sup> 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.