



MODIFICATION REPORT

SP Energy Networks

Mod. Proposal SPEN-10-03

**Amendment of Use of System Charging Methodologies for
removal of blanket exemption to pre-2005 Generators**

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For approval by the Authority

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SCOPE

1. This Modification Application is submitted by SP Energy Networks (SPEN) on behalf of SP Distribution Ltd and SP Manweb Plc¹.
2. This report sets out the proposed modification to SP Distribution and SP Manweb's UoS Charging Methodology, as a result of the removal of the blanket exemption from payment of Generation Distribution Use of System Charges (GDUoS) by EHV generators connected prior to 1 April 2005.

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.

INTRODUCTION

3. SPEN proposes to modify its Use of System Charging Methodology to accommodate the removal of the blanket exemption from payment of Generation Distribution Use of System Charges (GDUoS) to EHV generators contracted for connection prior to 1 April 2005.
4. The implementation date proposed for this modification is 1 October 2010, and it is envisaged that this methodology will be on an interim basis, and it will be superseded by the implementation of the long-term enduring forward looking methodology, the EDCM, which is currently being developed by the industry (led by the DNOs) and which will be in force from 1 April 2011.

HOW THE PROPOSAL BETTER MEETS RELEVANT OBJECTIVES

5. This modification is made for the purpose of better achieving the relevant objectives detailed in licence condition 13, paragraph 13.3, in particular objective 13.3 (b): *“that compliance with the methodology facilitates the competition in the generation and supply of electricity, and does not restrict, distort, or prevent competition in the transmission or distribution of electricity.* We believe that the methodology proposed in this modification facilitates competition amongst generators by applying a use of system charging methodology which is consistent for pre and post 2005 generators, while accounting for any differences in contractual conditions or connection charges amongst those generators.
6. This modification is also made for the purpose of better complying with licence condition 19, on the Prohibition of discrimination in providing Use of System, in particular condition 19.2: *“[...] the licensee must not make charges for providing Use of System to any person or class or classes of persons which differ from the charges for such provision to any other person or any other class or classes of persons, except insofar as such differences reasonably reflect differences in the costs associated with such provisions”.* We believe that the costs associated with providing Use of System services to generators are the same nature regardless of the date of connection to the system, and once the contractual and connection charging differences have been taken into account (as mentioned in Paragraph 5). Therefore, removing the blanket exemption will allow SPEN to better meet with its obligation under this licence condition.

BACKGROUND TO CHARGING PRE-2005 DG GENERATION

7. In 2005, Ofgem introduced a blanket exemption from paying GDUoS for generators connected prior to April 2005.
8. Ofgem have been clear since a decision document on structure of charges in November 2003 that the exemption to charging pre April 2005 generators would expire in March 2010, hence there has been 7 years notice.
9. In addition, the decision under the CDCM for HV and LV generators is to apply Use of System charges to all generators without pre or post 2005 distinction. Hence an extension to this arrangement to the EHV levels is justified from the point of view of consistency.
10. Additionally, DNOs have received clear guidance from Ofgem in relation to the need to ensure there is no undue discrimination in charges, in particular in relation to generators connected pre and post April 2005.

DESCRIPTION OF THE MODIFICATION

11. Our current Use of System methodology involves the calculation of a target revenue for EHV generation customers (EHV GDUoS). The calculation of this target revenue mirrors the calculation of the allowed revenues for “applicable generation” under DCPR4 and DPCR5, but taking account only of post-2005 EHV generators.
12. This target revenue is then utilised to set the post 2005 DGUOS charges, subject to a maximum 10% per annum price movement.

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13. The modification proposes to use the same target revenue to set DGUOS prices for both pre and post 2005 generators.
 14. The current approach of applying Long Run Marginal Reinforcement Costs for a number of determined geographical areas charges is preserved, and generator charges are scaled to match the target revenue described.

REVIEW OF CONTRACTUAL ARRANGEMENTS

15. SPEN is performing a case-by-case review of existing generation connections, to consider generators contractual rights for consistency with charging methodologies, and to establish if any capital refunds may be necessary resulting from different connection charging arrangements in place at the time of connection. This will seek to identify any situations where pre 2005 generators have funded assets that would have been funded by the DPCR4 and DPCR5 DG mechanisms had the connection taken place in that period. This detailed review will continue throughout 2010.
16. All EHV generators (pre and post 2005) currently pay site specific EHV demand charges on a consistent basis (import capacity charges plus associated site specific O&M). Typically these are annual charges although some generators chose to make a capital contribution to these at the time of connection, in which case their annual EHV demand charges are reduced accordingly. These charges are unaffected by this modification.

PROPOSED WORDING OF THE USE OF SYSTEM METHODOLOGY STATEMENT

17. The proposed tracked change version is attached to this proposal as a separate document.

REVISED USE OF SYSTEM CHARGES

18. This modification has no impact on the total allowed revenue as per the Distribution Licence.
19. The proposed methodology increases the revenue recoverable from EHV generators as the current 10% price rise cap in the existing methodology restricts this. With the introduction of pre 2005 generators a greater proportion of the EHV GDUOS target revenue, and hence overall allowed revenue, is recoverable from EHV Generators.
20. Appendix 1 (a and b) shows the resulting GDUoS charges as a result of the implementation of the current proposal.
21. Current EHV DG prices would provide annual revenues of £370k (SPM) and £450k (SPD), from post 2005 DG EHV customers. The proposed modification would recover annual revenues from EHV DG customers of £590k (SPM) and £880k (SPD), of this post 2005 would provide £230k (SPM) and £440k (SPD).
22. This modification will the impact CDCM revenues resulting in a reduction of £220k for SPM and £430k for SPD, to be recovered from HV/LV customers in the period 1st October to 31st March 2010.

Appendix 1.a. SPD

Indicative SPD GDUoS Charges October 2010

Site Name	May '10 GDUoS Charge p/kVA/day	Indicative Oct '10 GDUoS Charge p/kVA/day
Blackhill	0.44	0.42
Greendykeside	0.52	0.50
Greenknowes	0.52	0.50
Hagshaw Hill Extension	0.52	0.50
Aikengall	0.52	0.50
Hauplandmuir Extension	0.52	0.50
North Rhines	0.69	0.67
Craigengelt	0.52	0.50
Longpark	0.44	0.42
Muirhall	0.52	0.50
Pateshill	0.52	0.50
Hagshaw Hill	-	0.50
Hauplandmuir	-	0.50
Gallow Rig	-	0.67
Polwhat Rig	-	0.67
Blue Circle	-	0.42
Dun Law Windfarm	-	0.42
EPR Chicken Litter	-	0.50
Bowbeat (Emly Bank)	-	0.42
Bowbeat (Roughsidehill)	-	0.42
Harehill Windfarm	-	0.67
Shanks & McEwan Phase 3&4	-	0.50
Shanks & McEwan Phase 5	-	0.50
Shanks & McEwan Phase 6	-	0.50
Crystal Rig Windfarm	-	0.50
WetherHill Windfarm	-	0.67
Artfield Windfarm	-	0.67
Wardlaw Wood	-	0.50
Earlsburn	-	0.50
Dalswinton Windfarm	-	0.67
Steven's Croft Biomass	-	0.67
Minsca Windfarm	-	0.67

Appendix 1.b. SPM

Indicative SPM GDUoS Charges October 2010

Site Name	May '10 GDUoS Charge p/kVA/day	Indicative Oct '10 GDUoS Charge p/kVA/day
Amegni	0.46	0.14
Moel Maelogen	0.83	0.24
Rhyl Flats	0.83	0.24
Liverpool International Business Park	0.43	0.13
Port of Liverpool	0.43	0.13
Wern Ddu	0.83	0.24
Burbo Bank	-	0.13
Shell Stanlow	-	0.13
Bridgewater Paper	-	0.13
Hays Chemicals	-	0.13
Salt Union	-	0.13
Arpley	-	0.13
PG Strandgate	-	0.13
Granox	-	0.13
CEW	-	0.13
PG Winnington	-	0.13
Cemmaes Windfarm C	-	0.14
Cefn Croes 3	-	0.14
Cefn Croes 4	-	0.14
Mynydd Clogau	-	0.14
Cemmaes B	-	0.14
Penrhyddlan	-	0.14
Llidiartywaun	-	0.14
Llangwryfon	-	0.14
Rheidol	-	0.14
Carno B	-	0.14
Carno A	-	0.14
Mynydd Gorddu	-	0.14
Shotton Paper	-	0.24
BHP Petroleum	-	0.24
Moel Maelogan A	-	0.24
Moel Maelogan B	-	0.24
North Hoyle	-	0.24
Tir Mostyn	-	0.24
Braich Ddu	-	0.24
Rhyd y Groes	-	0.24
Trysglwyn	-	0.24
Llanabo Llyn Alaw	-	0.24