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**MODIFICATION PROPOSAL ENW/2010/002**

**Electricity North West Limited**

Proposal to amend the EHV charging methodologies for Designated EHV  
Premises from 1<sup>st</sup> October 2010

Date of Issue: 8<sup>th</sup> July 2010

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**FOR APPROVAL BY THE GAS AND ELECTRICITY MARKETS AUTHORITY**

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## 1. Introduction

- 1.1 On 22nd December 2009, ENW submitted modification proposal ENW/2009/005.2. This proposal described the charging methodology to be used for Designated EHV customers from April 2010 for 1 year until the introduction of the EDCM common charging methodology for Designated EHV customers which is currently being developed by DNOs. This modification received a non-veto from Ofgem on 22nd January 2010.
- 1.2 In the DPCR5 Final Proposals, Ofgem expressed its view that the blanket exemption applied to charging for Pre-2005 Distributed Generation (DG) should be lifted from 1st April 2010. We have reviewed our methodology in light of this and have developed a further change to our methodology in respect of Designated EHV connected generators and to comply with this requirement.

## 2. Description of the modification

- 2.1 This modification proposal applies to site specific EHV generation customers only. EHV demand customers will continue to be charged based on the EHV demand allowed revenue as calculated in modification proposal ENW/2009/005.2.
- 2.2 The EHV generation allowed revenue is calculated as the sum of the generation allowed revenue for each generation customer.
- 2.3 The allowed revenue resulting from the connection of generation customers is determined in accordance with Charge Restriction Condition 11 (Adjustment of licensee's revenues to reflect performance in relation to Distributed Generation) of our distribution licence and represents the costs of providing use of system to all DG customers. The allowed revenue calculation in CRC11 determines the overall revenue requirements to cover all DG customers' costs incurred since April 2005. The key components of the formula set out in CRC11 are:
- An incentive payment for each kW of generation connected between 1 April 2010 and the 31 March of the regulatory year.
  - A pass-through component allowing for the recovery of a proportion of any net investment by us over a 15 year period.
  - An operation & maintenance allowance for each kW of generation connected.
  - An allowance in respect of the DG that was connected on or before 31 March 2010 (as a result of the DG Incentive Scheme in effect at that date)
  - Adjustments in respect of DG connected to embedded distribution networks and in respect of registered power zones.
- 2.3 There is no contribution to the EHV Generation Allowed Revenue from EHV generation customers that connected prior to 1st April 2005.
- 2.5 The proposed methodology is to calculate total estimated EHV allowed revenue in the regulatory year which is then divided by the total capacity of generation connected at EHV to produce a daily p/kVA charge. This will be

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charged to all EHV connected generators except where existing contractual arrangements do not permit this. In these circumstances we will seek to agree revised terms.

### **3. Reasons for the change with an explanation of how the proposed change better meets the relevant objectives**

- 3.1 ENW is bringing forward these proposals to comply with the requirement to remove the blanket exemption applied to charging for Pre-2005 Distributed Generation from 1st April 2010. Our charging methodology will apply to all generators except where there are contractual arrangements which justify that it should not apply. In such circumstances charges will continue to be levied in accordance with their existing contractual terms.
- 3.2 This modification report proposes modifying the Charging Methodology for EHV generation customers in the following ways:
- The introduction of a new EHV Allowed Revenue for Generation term and the methodology for its calculation.
  - The determination of a monthly p/kVA charge, calculated from the EHV Allowed Revenue for Generation term.
  - The application of the p/kVA charge to all EHV generation customers including those connected prior to 1st April 2005.
- 3.3 ENW must demonstrate that any proposed changes to its charging methodology better meets the relevant objectives set out in SLC 13.3 of the distribution licence.
- 3.4 This modification proposal better meets relevant objective SLC 13.3 (a) that compliance with the methodology facilitates the discharge by the licensee of the obligations imposed on it under the Act and by the licence.
- 3.5 SLC 19.1 states that the licensee must not discriminate between any person or class or classes of persons in providing Use of System and SLC19.2 states 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 provision.
- 3.6 SLC 12.4 states that an agreement for Use of System must set out the charges to be paid which must be consistent with the relevant Charging Methodology and SLC 7.10 allows either party to an agreement who proposes to vary the contractual terms of that agreement may request the Authority to settle any dispute relating to the variation.
- 3.7 The proposal ensures that all generators will be charged on the same basis hence better meeting SLC19.1. Charges will not apply where existing contractual arrangement do not allow for such charging, until such time as a variation to the contract has been agreed, potentially using the provisions of SLC 7.10 where agreement cannot be reached.

### **4. Proposed Changes**

- 4.1 The proposed changes to ENW's Use of System Charging Methodology statement are detailed in Appendix A.

## 5. Proposed illustrative structure and charges

5.1 The table below shows the comparison of the EHV generation Use of System Charges for 1<sup>st</sup> October 2010 to 31<sup>st</sup> March 2011. The table includes all generators irrespective of where the methodology is not applied due to contractual reasons.

EHV DG Site Name / LLFC	Current Charge (Oct10-Apr11)	Proposed Charge (Oct10-Apr11) *	Change in terms & conditions likely? †
Roosecote Power Station, Export		-£491	Y
BNFL Fellside, Export		-£300	Y
360		-£34	Y
380		-£214	Y
420		-£14	Y
440		-£15	Y
350		-£22	Y
490		-£18	Y
590		-£21	Y
990		-£12	Y
290	£93,205	-£140	N
270	£8,532	-£13	N
400		-£212	Y
310		-£212	Y
470		-£49	Y
690		-£64	Y
720		-£1	Y
770		-£1	Y
740		-£1	Y
750		-£1	Y
820		£0	Y
840		-£161	Y
970		-£28	Y

\* Negative values indicate a credit

† If a change in the terms and conditions of the customer's connection agreement is likely, then Electricity North West will not apply the charge indicated in this table

5.2 The introduction of this modification proposal results in a decrease in charges for all EHV generation as the generation allowed revenue is a credit of £12,000 for the charging year 2010/11.

**6. Timetable for the implementation of the modification and charges changes**

- 6.1 ENW intends to implement the proposed changes contained within this modification proposal on 1st October 2010.

## **Appendix A: Proposed changes to Electricity North West's Use of System Charging Methodology Statement**

### **4. Use of System Charging Methodology – Extra High Voltage Distributed Generation Charges**

#### **Introduction**

4.1 This methodology will be valid from 1 October 2010 until the introduction of a new EHV Distribution Charging Methodology on 1 April 2011 and will be utilised to calculate EHV Generator Use of System (GDUoS) charges for all Designated EHV premises (EHV Distributed Generation), except where existing contractual arrangements do not permit this. In such circumstances charges will continue to be levied in accordance with the existing contractual terms and we will seek to agree revised terms.

#### **Parties Liable for Distributed Generation Charges**

4.2 Except as provided for in 4.1 above, all EHV Distributed Generation is liable for Generator Use of System (GDUoS) charges. This methodology explains the calculation of Generator Use of System (GDUoS) charges for EHV Distributed Generation customers.

#### **Charging Methodology**

4.3 The charges for EHV Distributed Generation customers are based on the EHV Allowed Revenue resulting from the connection of EHV generation customers. This is determined in accordance with Charge Restriction Condition 11 (Adjustment of licensee's revenues to reflect performance in relation to Distributed Generation) of our distribution licence and represents the costs of providing use of system to all DG customers. The allowed revenue calculation in CRC11 determines the overall revenue requirements to cover all DG customers' costs incurred since April 2005. The key components of the formula set out in CRC11 are:

- An incentive payment for each kW of generation connected in the regulatory year.
- A pass-through component allowing for the recovery of a proportion of any net investment by us over a 15 year period.
- An operation & maintenance allowance for each kW of generation connected.
- An allowance in respect of the DG that was connected on or before 31 March 2010 (as a result of the DG Incentive Scheme in effect at that date)
- Adjustments in respect of DG connected to embedded distribution networks and in respect of registered power zones.

4.4 Note, for Distributed Generation connections only, the cost apportionment factor rules detailed in our Licence Conditions 13 & 14 document titled "Statement of Methodology and Charges for Connection to Electricity North West Limited's Electricity Distribution Network" will only be applied to reinforcement costs up to a cap of £200 per kW of Installed Generation Capacity. All reinforcement costs in excess of this cap will be charged in full to the connecting generator alongside other connection charges.

4.5 The allowed revenue calculated in 4.3 above is based on all DG customers. To calculate the proportion of the revenue that is attributable to EHV customers the total revenue is multiplying by the EHV DG capacity and divided by the total DG capacity that connects under the appropriate price control period.

4.6 The estimated EHV Allowed Revenue in the regulatory year is divided by the total capacity of generation connected at EHV to produce a daily p/kVA charge.

Principles and basis of charges

- 4.7 Electricity North West aims to produce cost reflective charges for EHV Distributed Generation within the parameters of the calculation of EHV Allowed Revenue.
- 4.8 Electricity North West does not recover either Business Rates or NGET Connection or NGET Use of System charges from EHV Distributed Generation customers.
- 4.9 Electricity North West shall discuss with the Distributed Generation customer and their nominated Supplier whether charges will be recovered either directly from the Distributed Generation customer, or from their nominated Supplier.
- 4.10 At the time of the connection application the Distributed Generation customer will inform Electricity North West of the MW capacity of his Distributed Generation plant. This declaration forms the basis of Electricity North West’s assessment of the type and size of network assets required to be installed to connect the Distributed Generation to Electricity North West’s distribution network. It will also set the level of on-going chargeable Installed Generation Capacity. The Distributed Generation customer will be charged at the level of his declared Installed Generation Capacity.
- 4.11 The Distributed Generation will be expected to operate, within the band between 0.95 lagging and 0.95 leading power factor. If the Distributed Generation operates outside of this range the customer will incur reactive power charges, unless the mode of operation has previously been agreed, in which case the customer is entitled to request a refund of any charges incurred. The value of the excess reactive power charge to be levied on Distributed Generation customers is set at the same value as that levied on demand customers.

**Matching Distributed Generation charges to Distributed Generation Allowed Revenue**

4.12 As the charges for EHV Distribution Generation are generated using a charging methodology that mirrors the allowed revenue calculation there is therefore no revenue matching required.

Interruption Standard Payment

- 4.13 Electricity North West offers an interruption standard payment to EHV Distributed Generation customers when their connection to our distribution network is unavailable, subject to the terms and conditions of the connection agreement with the Distributed Generation customer.
- 4.14 Electricity North West will offer a standard interruption payment, of £0.002 per kWh for every whole hour without network availability (except for prearranged outages), to EHV Distributed Generation customers that have a firm (secure) connection to our distribution network

**5. Glossary of terms**

5.1 The following definitions are included to aid understanding of this document.

EHV Allowed Revenue	Is determined in accordance with paragraph 4.2.
EHV Distributed Generation	Is as defined in paragraph 4.1.