

Modification proposal:	<b>UK Power Network's<sup>1</sup> (UKPN) proposal to amend its connection charging methodology in respect of assessment and design fees and 'rent-a-jointer'<sup>2</sup> services.</b>		
Decision:	The Authority <sup>3</sup> directs that this proposal is not vetoed <sup>4</sup>		
Target audience:	DNOs, IDNOs, Suppliers, Generators and other interested parties		
Date of publication:	31 <sup>st</sup> March 2011	Implementation Date:	1 April 2011

## Background

In accordance with standard licence condition ("SLC") 13 of its electricity distribution licence (the "Licence"), UKPN, a Distribution Network Operator ("DNO"), is required to have in force at all times a connection charging methodology ("Methodology"), which the Authority has approved on the basis that it achieves the relevant objectives<sup>5</sup>. UKPN must review the Methodology at least once every year and make such modifications (if any) to the Methodology as are necessary for the purpose of better achieving the relevant objectives.

UKPN is required by SLC 14 ("Charges for Use of System and connection") of its Licence, to prepare a connection charging statement ("Statement"), in a form approved by the Authority, which sets out the basis on which charges will be made for connection to its distribution system. Under SLC 14.14 the Statement must include a common connection charging template, that sets out in a common format, the schedule of items of significant cost required by SLC 14 Appendix 1 A2.(a) of its Licence.

The other DNOs adopted the common connection charging template in October 2010. While UKPN adopted the majority of the common connection charging template, it retained its existing table for Assessment and Design ("A&D") charges in order to update its IT systems. Changes to UKPN's Methodology approved by the Authority on 29 July 2010, made clear that UKPN charged for A&D in a different manner from the other DNOs. On 29 July 2010 the Authority approved the form of UKPN's Statement on a temporary basis until 31 March 2011; by which point it was expected that UKPN would have updated its IT systems.

UKPN has now updated its IT systems and have requested that the Authority approves a new version of its Methodology in order for it to update the form of its Statement, in line with SLC 14.14 which requires licensees to use a common template for its Statement. The Authority approved UKPN's Statement on 31 March 2011.

<sup>1</sup> This letter applies to all four UKPN licensees; Eastern Power Networks PLC, London Power Networks PLC, South Eastern Energy Networks PLC and UK Power Networks IDNO Ltd. For the avoidance of doubt, where we refer to UKPN in this letter, we are referring to all four of these licensees.

<sup>2</sup> A rent-a-jointer scheme allows ICPs and Local Authorities (LAs) to engage a DNO jointer for a set period of time to complete pre-arranged live working on unmetered connection projects.

<sup>3</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>4</sup> This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

<sup>5</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 its 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.

## Summary of UKPN's proposals

On 28 March 2011 UKPN submitted a modification report (UKPN 035)<sup>6</sup> that sets out its proposals to modify its Methodology. It proposes to make the following changes:

- remove wording noting that UKPN will adopt the common structure of A&D charges (already adopted by other DNOs in line with SLC 14.14), at a later date;
- add wording explaining that where the customer changes its requirements or does not accept a quotation and requires further quotation at the same premises for the same or a similar connection, and additional A&D work is required to adjust the original designs, the customer will be charged in respect of the additional work by way of an hourly rate; and
- add wording explaining that rent-a-jointer services are available as an option when undertaking metered highway services connections where certain criteria set out by UKPN are met (currently rent-a-jointer services are only available for unmetered connections).

## 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, the Authority's principal objective and wider statutory duties<sup>7</sup>.

Our decision is based on UKPN's proposal better achieving relevant objectives (a) and (c) and having no impact on relevant objectives (b) or (d). The reasons for the Authority's decision are set out below.

*Relevant Objective (a) – that compliance with the Methodology facilitates the discharge by the licensee of the obligations imposed on it under the Act<sup>8</sup> and by this licence;*

SLC 14.14 requires that the licensee must ensure that the schedule of items of significant cost (referred to in paragraph (a) of Part B of the schedule of contents in Appendix 1 to that condition) is presented in accordance with a template common to all licensees. The removal of words noting that UKPN would adopt the common structure of A&D charges (already adopted by other DNOs in line with SLC 14.14), at a later date, allows UKPN to make changes to its Statement in order that it complies with SLC 14.14. Therefore, the Authority considers that UKPN's proposal better achieves relevant objective (a).

*Relevant Objective (c) – that compliance with the Methodology results in changes which reflect, as far as reasonably practicable (taking account of implementation costs), the costs incurred by the licensee in its distribution business;*

The Authority considers that, charging for additional A&D work caused by changes in a customer's requirements or multiple quotation requests will result in more cost reflective connection charges. Therefore, the Authority considers that UKPN's proposal better meets relevant objective (c). However, the Authority wishes to make clear that, under section 19 of the Electricity Act 1989 ('the Act'), any A&D charges made must be in respect of expenses reasonably incurred in providing the connection eventually provided and that

---

<sup>6</sup> <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=760&refer=Networks/ElecDist/Policy/DistChrgMods>

<sup>7</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.

<sup>8</sup> Electricity Act 1989.

A&D charges can only be recovered if the full and formal connection offer is accepted by the customer – ie upfront A&D charges are not permitted<sup>9</sup>.

The Authority considers that, in certain circumstances, the costs incurred by UKPN in providing metered highway services connections may be best reflected by a time based rent-a-jointer charge. Therefore the Authority considers that it is appropriate that UKPN have this option available to it and that the proposal better achieves relevant objective (c).

If you have any questions relating to the issues discussed in this letter please contact Jade Beavon, either at [jade.beavon@ofgem.gov.uk](mailto:jade.beavon@ofgem.gov.uk) or on 020 7901 7034.

Yours faithfully,

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

---

<sup>9</sup> Whilst section 16A of the Electricity Act 1989 has now been amended (new section 16A(4A)) to enable the Secretary of State to make regulations for the purpose of entitling DNOs to require section 16 customers to pay reasonable connection offer expenses, such charges will only be permissible once these regulations have been made by the Secretary of State. We understand that process is still ongoing and no regulations have yet come into effect. For more information on the practice of charging upfront A&D fees, please see a copy of our letter on this here:  
<http://www.ofgem.gov.uk/Networks/Connectns/CompinConn/Documents1/upfront%20charges%20letter%20final%20Nov%202010.pdf>