

Company Secretary
Scottish Hydro Electric Power Distribution plc
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Your ref: SSEPD/11/001
Direct Dial: 020 7901 7194
Email: Rachel.Fletcher@ofgem.gov.uk
Date: 30 November 2011

Dear Colleague,

Decision in relation to modification proposals to amend Use of System charging methodologies SSEPD/11/001

Background

In September 2011¹, the Authority approved the Extra High Voltage (EHV) Distribution Charging Methodology (EDCM)² for demand (import) customers, with charges to commence on 1 April 2012 (the September 2011 Decision). We stated that we decided to defer our decision on the EDCM for generation (export) customers until April 2013 at the earliest to provide greater clarity around the arrangements for distributed generators (DG) connected pre-2005, which are currently exempt from Use of System charges.

A consequence of our September 2011 Decision is that the new EDCM demand methodology would run in parallel with the existing EHV generation methodology of each Distribution Network Operator (DNO) until the EDCM for generation charges is approved.

The Authority noted that the interaction between the EDCM (for demand) and the DNOs' existing methodologies (for generation) may cause issues that need to be addressed; in particular, issues involving the charging of mixed demand-generation sites.³ We indicated that we expected DNOs to submit modifications to their existing individual EHV generation methodologies should they consider charges arising from the interaction of the two methodologies inappropriate. We also indicated that as a minimum, we expected DNOs to submit any housekeeping changes⁴ necessary to their methodologies as a result of our decision. This would involve modifications to their charging methodology statements and should be submitted under standard condition (SLC) 13⁵ (Charging Methodologies for Use of System and connection) for approval by the Authority.

¹ "Electricity Distribution Charging: Decision on the methodology for higher voltage import charges", Ref: 116/11 6 September 2011, available at: <http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/EDCM%20Decision%20on%20Import%20Charges%206%20Sep%202011.pdf>

² The EDCM is the use of system charging methodology for Extra High Voltage network users.

³ Mixed sites describe a situation where a single site or customer has two EDCM tariffs, associated with demand (import) and generation (export) connections. One issue which may require a modification of the existing methodology concerns the allocation of costs associated with sole use assets: the EDCM allocates sole use asset costs between the generation and demand tariffs according to their respective capacities, while some DNOs' existing methodologies allocate these costs according to the dominant capacity.

⁴ Housekeeping changes are mainly cosmetic in nature such as amending references and deleting materials that have become irrelevant as a result of our decision.

⁵ DNOs are required by SLC 13 to ensure that they; at all times have in force, a use of System Charging Methodology which has been approved by the Authority on the basis that it achieves the Relevant Charging Objectives.

SSE modification proposal

This proposed modification was proposed by Scottish Hydro Electric Power Distribution plc and Southern Electric Power Distribution plc (together, SSE) in November 2011 following the September 2011 Decision. Following the September 2011 Decision, from 1 April 2012, SSE will charge EHV demand customers in accordance with the EDCM and EHV generations customers in accordance with its current methodology.

SSE have proposed to update their charging methodology statement to remove materials that would become irrelevant or misleading⁶ as a result of implementing the EDCM for demand charges. They have split Part B of their statement into two: Part B1 covers the EDCM for demand (import) charges, while Part B2 covers export charges for both pre and post 2005 EHV generators. Part B2 has been further modified to reflect changes in the structure and parameters of the price control distributed generation incentive.⁷ The proposed modification aims to ensure customers better understand which parts of the methodology statement are applicable to specific customer groups.

The Authority's decision

We have assessed the issues raised by this proposal, taking into account the Relevant Objectives (a)⁸, (b),⁹ (c)¹⁰ and (d)¹¹ as well as our principal objective and statutory duties. We consider this proposed modification clarifies any potential ambiguity in SSE's current methodology statement. The proposed modification ensures that SSE's methodology statement unambiguously captures arrangements that reflect the EDCM for demand import charges and SSE's existing methodology for EHV generation charges. We believe the changes proposed take account of developments in the structure and governance of SSE's charging methodologies.

We also assess that the proposed modification has neutral impact on competition in the generation and supply of electricity, and does not impact on the cost reflectivity of SSE's charging methodology.

Consequently, we have decided **not to veto** the modification to the Use of System Charging Methodology. We are however keen to ensure that DNOs employ a common charging methodology and we will continue to work towards this.

⁶ These are mainly housekeeping changes such as appropriate referencing and including pointers to further background information.

⁷Part B2 sets out the implications of Ofgem's DPCR5 Final proposal December 2009 Decision not to extend the Distribution Use of system Charges exemption given to pre 2005 DGs. Link can be found in; http://www.ofgem.gov.uk/Networks/ElecDist/PriceCtrls/DPCR5/Documents1/FP_1_Core%20document%20SS%20FINAL.pdf

⁸ Relevant Objective (a) That compliance with the methodology facilitates the discharge by the licensee of the obligations imposed on it under the Act and by this licence.

⁹ Relevant Objective (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

¹⁰ Relevant Objective(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.

¹¹ Relevant Objective (d) That so far as is consistent with sub-paragraph (a), (b) and (c), the methodology, as far as is reasonably practicable, properly takes account of developments in the licensee's Distribution Business.

Please contact bimbola.ayo@ofgem.gov.uk or on 0207 901 7184 if you have any queries relating to the issues raised in this letter.

Yours sincerely,

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

Rachel Fletcher

Acting Senior Partner, Smarter Grids and Governance: Distribution

Signed on behalf of the Authority and authorised for that purpose