

Company Secretary
Western Power Distribution (South West) Plc &
Western Power Distribution (South Wales) Plc
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Your ref: WPD/WALES/WEST/020
Direct Dial: 020 7901 7194
Email: Rachel.Fletcher@ofgem.gov.uk
Date: 30 November 2011

Dear Colleague,

Decision in relation to modification proposals WPD/WALES/WEST/020: Use of System Charging Methodology: Charges for post April 2005 Connected EHV DG Sites

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. 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 decision is that the new EDCM demand methodology would run in parallel with the existing EHV generation methodology of each Distribution Network Operators (DNOs) 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 charging³ for mixed demand-generation sites.⁴ 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 combined methodologies inappropriate. This would involve modifications to their charging methodology statements and should be submitted under standard licence (SLC) 13⁵ (Charging Methodologies for Use of System and connection) obligations 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 EDCM allocates sole use asset costs between the generation and demand tariffs according to the respective generation and demand capacity, while some DNOs' existing methodologies allocate these costs according to the dominant capacity.

⁴ Mixed sites describe a situation where a single site or customer has two EDCM tariffs, associated with demand (import) and generation (export) connections

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.

WPD modification proposal

This modification was proposed by Western Power Distribution (South Wales) plc and Western Power Distribution (South West) plc (together, WPD) in November 2011 following the September 2011 decision. Following the September 2011 Decision, from 1 April 2012, WPD will charge EHV demand customers in accordance with the EDCM and EHV generations customers in accordance with its methodology⁶.

WPD states that resultant charges for mixed sites (whose import meter is charged per the EDCM and export meter per its existing methodology) are inappropriate. The reason is that in the EDCM, some costs are allocated to the demand and generation component of a mixed site based on their relative capacities. WPD's existing methodology, on the other hand, allocates costs either to the demand or generation component based on the dominant capacity. This can result in over-charging for mixed sites dominated by the export capacity, and undercharging for mixed sites dominated by the import capacity.

Intention of the proposal

The intent of this proposed modification is to avoid duplication or complete omission of charges between the EDCM demand and the generation charge from their existing methodology by proposing that specific costs are allocated between demand and generation in accordance with customers demand and generation capacities. This would also ensure that costs are properly reflected in both the demand and generation components of a customer's connection.

The Authority's decision

We have assessed the issues raised by this proposal, taking into account the Relevant Objectives (a)⁷, (b)⁸ (c)⁹ and (d)¹⁰; as well as our principal objective and statutory duties. We consider this proposed modification makes charges more cost reflective by ensuring that costs associated with mixed sites are allocated based on the customers relative demand and generation capacity and not on the dominant capacity. The proposed modification also ensures that charges for the generation component of a mixed site dominated by import capacity are not completely omitted, and that generation charges for a mixed site dominated by an export capacity are not duplicated.

Calculating charges in this manner would ensure that charges are appropriately captured, and reflect the costs relating to sole use assets. The modification also facilitates competition in generation by ensuring WPD's use of system charging

⁶ The methodology classifies a customer as being either demand or generation based on their relative demand and generation capacities. The customer is then charged for use of the system; including sole use assets (SUAs), based on the **dominant capacity**.

⁷ *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*

⁸ *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*

⁹ *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.*

¹⁰ *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.*

arrangements do not discriminate between the demand and generation components of a customer's connection. We believe the changes proposed also take account of developments in the structure and governance of WPD's charging methodologies.

Consequently, we have decided **not to veto** the proposed modification to the Use of System Charging Methodology. This decision does not change our commitment to employing a common methodology for all EHV customers and we will continue to work with the DNOs towards developing this.

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