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Date: 15 December 2011

Dear Colleague,

Decision in relation to modification proposals to amend Use of System Charging Methodologies ENW/2012/001

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 to provide greater clarity around the arrangements for distributed generators (DG) connected pre-2005, which are currently exempt from Use of System charges. A decision on the EDCM for generators (exports) should be made by April 2013 at the earliest.

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

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.

statements and should be submitted under standard condition (SLC) 13⁵ (Charging Methodologies for Use of System and connection) for approval by the Authority.

ENW modification proposal

This proposed modification was proposed by Electricity North West (ENW) Power Distribution Limited in November 2011 following the September 2011 Decision. From 1 April 2012, ENW will charge EHV demand customers in accordance with the EDCM and EHV generations customers in accordance with its current methodology. ENW will continue not to charge for the export MPAN of any pre-2005 connected Distributed Generation (DG).

The proposed modification also clarifies how the interruption standard payment for EHV customers is applied; and ensures that customers better understand which parts of the methodology statement are applicable to specific customer groups.

ENW 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 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. The Authority has concluded that implementation of the proposal will better facilitate the achievement of relevant objectives (a) and (d) which are addressed in turn below:

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.

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.*

- ENW are required to develop and implement an EHV Distribution Charging Methodology under standard condition (SLC) 50A¹² (Development and implementation of an EHV Distribution Charging Methodology). We believe that the changes proposed in the modification facilitate the discharge of this obligation.
- The changes proposed also take account of developments in the structure and governance of ENW's charging methodologies. The proposed modification clarifies any potential ambiguity in ENW's current methodology statement and ensures that ENW's methodology statement unambiguously captures arrangements that reflect the EDCM for demand import charges and ENW's existing methodology for EHV generation charges.
- In our assessment, the proposed modification has neutral impact on competition in the generation and supply of electricity, and does not impact on the cost reflectivity of ENW'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.

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,



Rachel Fletcher

Acting Senior Partner, Smarter Grids and Governance: Distribution

Signed on behalf of the Authority and authorised for that purpose

¹² A copy of the licence can be found in the following link:
http://epr.ofgem.gov.uk/document_fetch.php?documentid=15992