

**WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC
WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC**

MODIFICATION PROPOSAL

Amendment Proposal: WPD (23) - Alignment of WPD's 4 Licensees' connection charging methodologies

- **Proposal to amend Company specific Connection Charging Methodology and to seek approval from the Authority for such amendment.**
- **The revised statement to take effect from 1 December 2011.**

Date of Issue: 9 November 2011

For Approval by the Gas and Electricity Markets Authority

This Modification Proposal sets out Western Power Distribution's ("WPD's") proposals to amend its existing:

- a) Statement of the Connection Charging Methodology and Basis of Charges for Connection to Western Power Distribution (West Midlands) plc's Electricity Distribution System;
- b) Statement of the Connection Charging Methodology and Basis of Charges for Connection to Western Power Distribution (East Midlands) plc's Electricity Distribution System;

This Modification Proposal should be read in conjunction with the Modification Proposal relating to proposed changes to WPD South West and WPD South Wales statements.

Issue Record

Issue Date	Issue No.	Author	Amendment Details
9 November 2011	1.0	John Hill	Alignment of WPD's 4 Licensees' connection charging methodologies

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1.0 Introduction

- 1.1 In accordance with Condition 13, paragraph 13.4(a) of WPD's Distribution Licence, we are seeking the approval of the Authority to modify the connection charging methodology for WPD East Midlands and WPD West Midlands.
- 1.2 The requested amendment seeks to implement changes to the statements as a consequence of the purchase of Central Networks on 1 April 2011 by PPL WEM Holdings plc who in turn currently own Western Power Distribution.
- 1.3 This Modification Proposal sets out:
- i) the terms proposed for the modification and how the modification would better achieve the relevant objectives; and
 - ii) a date with effect from which the modification (if made) is to take effect.
- 1.4 The relevant objectives in Licence Condition 13, paragraph 3 state:
- (a) that compliance with the connection charging methodology facilitates the discharge by the licensee of the obligations imposed on it under the Act and by this licence;
 - (b) that compliance with the connection charging 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 connection charging 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 connection charging methodology, as far as is reasonably practicable, properly takes account of developments in the licensee's distribution business.

2.0 Proposals for Modification and how the Proposals Better Achieve the Relevant Objectives

- 2.1 WPD proposals for modification are set out in the documents attached, (clean and tracked changed statements). It is proposed to publish a connection charging methodology/connection charging statement for each of WPD's licensed areas. The marked copy highlights all the changes necessary in order to align the South West/South Wales and East and West Midlands statements.
- 2.3 Section 5 identifies the Common Connection Charging Methodology – common to ALL DNO's. Within the current WPD East Midlands and WPD West Midlands statements. It has become apparent that there has been an omission of the worked examples from Example 8B onwards, it is therefore proposed that the remaining examples are to be re-inserted in the East Midlands and West Midlands statements.

2.4 Section 6 identifies WPD's specific Connection Charging Methodology. It details aspects of the charging methodology that apply solely to WPD.

2.5 Section 6 of the WPD East and West Statements has been updated to mirror the South West and South Wales statements as a consequence of the East and West Practices being aligned with those of the South West/South Wales in the following areas: -

- Payment Terms
 - Operation and Maintenance
 - Disconnection Requirements/Timescales
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- Section 6 - the South West/Wales Payment Terms wording is preferred to that over the Payment Policy wording currently detailed in the East/West Midlands statements as such wording goes into greater detail on the type of payment terms that apply to the type of development/nature of the connection and therefore will better inform users of the statement. Such change in wording does not give rise to any material change.

Wording to be replaced in the East/West Midlands statements: -

Payment Policy

We operate a policy of upfront payment for all minor projects, usually this is a one-off payment. However, we operate a policy of phased payments geared to key milestones for projects where the project can be broken down into key phases. In these circumstances, we will always remain cash positive.

Wording to be inserted in the East /West Midlands statements: -

Payment Terms

The Connection Charge is normally payable in full in advance of Energisation of the connection. For simple service connections, where work is minimal, we recommend that payment is made at the same time as you accept our Connection/POC Offer as this will expedite the programming of the work. In the case of a phased development, or connections requiring major electrical infrastructure, e.g. a housing estate, large commercial development, or large generator, the Connection Charge will be payable in stages. An initial payment will be required at the time you accept the Connection/POC Offer and further payment will be required by instalment to coincide with our incidence of expenditure.

Whilst there is no change to WPD's policy regarding this modification to the statement, this amendment provides better cost reflectivity and therefore, this modification better meets Relevant Objectives SLC 13.3 (c) that compliance with the connection charging 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. As a consequence of this change, users of the statement will be better informed.

- Section 6 – Whilst it is WPD's policy to apply Operation and Maintenance charges in certain circumstances, currently the East/West Midlands statements stay silent as to where and when such charges will apply, whereas the South West/South Wales statements give detail as to when Operation and Maintenance charges above and beyond those that would normally be recovered for connections through Use of System charges apply. It also provides details of how such charges are

applied. The manner in which the charges are determined for East and West Midlands is the same as for South West and South Wales. The inclusion of this wording provides users of the statement with more information regarding charges for the provision of a connection and it aligns with the South West South Wales methodology. It is therefore proposed to introduce into the East/West Midlands statements.

Wording to be included in the East/West Midlands statements: -

Operations, Repairs and Maintenance

The cost of future operations, repairs and maintenance of the connection assets and our Distribution System is normally recovered through the on-going charges for use of system you pay as part of your quarterly or monthly electricity supply bill.

Where you request additional requirements which are above the normal level of assets required to be installed under the Minimum Scheme a capitalised payment to cover future operations, repairs and maintenance of the additional assets will be included as part of the Connection Charge. The capitalised costs are derived from the annual estimated costs of operation, repairs and maintenance relating to the additional assets used for the connection using an appropriate discounted rate reflecting the regulatory cost of capital. They are usually expressed as a percentage of the initial capital value of the additional assets.

The modification to the statement provides better cost reflectivity and therefore this modification better meets Relevant Objectives SLC 13.3 (c) that compliance with the connection charging 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. As a consequence of this change, users of the statement will be better informed as to when they can expect such charges to be applied to their connection.

- Section 6 – It is proposed to include additional wording in the East/West Midlands statements which currently features in the South West/South Wales statements Whilst WPD's policy remains unchanged, the wording will bring to the attention of users of the East/West Midlands statements WPD's policy in relation to the permanent disconnection of a connection. The wording also details WPD's rights where the connection is given under the terms of a Connection Agreement and where a substation is provided for such connection. Timescales for the removal of WPD's connection equipment are also detailed in this wording.

Wording to be included in the East/West Midlands statements (at section 6.20): -

Further to paragraphs 5.56 to 5.58, on receipt of a request to permanently disconnect a connection we will take all reasonable steps to remove the equipment in accordance with the your reasonable requirements or, where a substation site has been provided by you, we may wish to exercise our right under the Connection Agreement to call for the grant of a lease or the conveyance of freehold on such reasonable terms and conditions as may be agreed. We will make a charge for carrying out the disconnection work. Normally low voltage service termination equipment will be removed within 21 working days but up to six months' notice may be required to remove high voltage substation plant. In the case of EHV connections we should be consulted at an early stage and a programme for the removal of equipment agreed.

- The modification to the statement ensures users of the statements are better informed and provides better cost reflectivity, therefore this change better meets Relevant Objectives SLC 13.3 (c) that compliance with the connection charging 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. As a consequence of this change, users of the statement will be better informed. This additional wording mirrors that in Section 6 of the South West/South Wales statements.

- 2.6 The wording on Connection Offer and POC Offer Terms and Conditions has been “softened” slightly since as it currently stands, an offer for a connection is either given under WPD’s standard terms and conditions when a customer applies under Section 16 of the Act or, the terms and conditions of connection will be non standard.
- Section 6 – It is proposed to amend the paragraph on the Connection Offer and POC Offer Terms and Conditions to the same wording as that proposed in the South West South Wales statements. Whilst the South West/South Wales statements currently stay silent on this matter, the policy to apply non standard terms remains the same for the 4 licensed areas, Currently the East and West Midlands statements provides details to users of the statement that non standard terms will be given where our standard terms and conditions do not apply and such terms would be given under Section 22 of the Act. It is therefore it is proposed to amend the wording so that it will clarify WPD's position in circumstances where the customer wishes to negotiate non standard terms. Where the amendment is slight, WPD would not normally expect to recover any additional costs incurred. However, where the customer proposes a major amendment that would significantly vary from the standard form of terms and conditions, or would place WPD in breach of its obligations under section 16 of the Act and WPD incurred substantial costs in formalising those revised terms, we may seek to recover our reasonable costs from the customer. The inclusion of this wording makes it explicit to users of the statement that where we do negotiate connection terms with a customer outside of our normal standard connection terms, then we may seek to recover the additional costs incurred in doing so. The non standard terms and conditions will be negotiated with the customer and full agreement reached on such terms. It is therefore proposed that the following wording be included in place of that currently contained in the East and West Midlands statements: -

Wording to be included: -

Connection Offer and POC Offer Terms and Conditions

Connection Offers and POC Offers are on our standard terms and conditions. Where the standard terms and conditions are not entirely appropriate to your connection requirements we will endeavor to negotiate alternative terms and conditions with you. In such cases we may seek to recover from you our costs incurred including where we appoint legal advisors. Such terms will be in full agreement with you. Where you wish to agree terms and conditions that fall outside of the requirements of sections 16 - 21 of the Act we may agree a special connection agreement in accordance with section 22 of the Act.

Wording to be replaced: -

Connection Offer and POC Offer Terms and Conditions

Connection Offers and POC Offers are on our standard terms and conditions. Where you require alternative terms and conditions we will negotiate special terms with you as provided for in section 22 of the Electricity Act. Our costs incurred in

the negotiation of the special terms, including where we appoint legal advisors, are recoverable from you

The modification to the statement ensures users of the statements are better informed and provides better cost reflectivity and therefore, this modification better meets Relevant Objectives SLC 13.3 (c) 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, as the additional costs incurred in negotiating special terms are recovered from the customer who requests them. The same wording will now be included in all 4 statements.

2.7 The amendments identified above to East/West statements will ensure that these statements now mirror the South West/South Wales statements and thus provide greater transparency for users of the statements.

2.8 As a consequence of WPD's desire to implement best practice across all 4 licensed areas, changes are therefore necessary to its charging statements and align them accordingly. Such changes to the statements better meets relevant licence objective 13.3.(d) given that the connection charging methodology, as far as is reasonably practicable, properly takes account of developments in the licensee's distribution business.

3.0 Justification for Modification

3.1 This modification proposal seeks to update WPD's connection charging methodology and connection charging statement so that it reflects current working practices and accurately informs persons wishing to obtain a new, augmented, modified or reduced electricity connection of the application process.

4.0 Implementation Date

4.1 It is proposed to implement this modification on 1 December 2011, or as soon as possible following a 'non-veto' decision by the Authority.