



Company Secretary
Northern Powergrid (Northeast) Ltd.
Northern Powergrid (Yorkshire) Plc.
Lloyds Court
78 Gray Street
Newcastle upon Tyne
NE1 6AF

*Promoting choice and value for
all gas and electricity customers*

Your Ref: 0018-2011-EDCM changes
Direct Dial: 020 7901 7159
Email: Andy.Burgess@ofgem.gov.uk
Date: 20 December 2011

Dear Colleague,

Decision in relation to Northern Powergrid (Northeast & Yorkshire) Use of System Charging Methodology - Effective from 1 April 2012

This letter describes our decision not to veto your proposed modification to your use of system methodology.

Background

In September 2011¹, the Authority approved the Extra High Voltage (EHV) Distribution Charging Methodology (EDCM) 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. These generators are currently exempt from Use of System charges. A decision on the EDCM for generators (exports) is unlikely to be made before April 2013.

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.

We noted that the interaction between the EDCM (for demand) and the DNOs' existing methodologies (for generation) might cause issues that needed to be addressed- in particular issues involving the charging of mixed demand-generation sites.² We indicated that we expected DNOs to submit modifications to their existing individual EHV generation methodologies if they considered charges arising from the interaction of the two

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 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.

methodologies inappropriate. We also indicated that, as a minimum, we expected DNOs to submit for approval under standard condition (SLC) 13³ (Charging methodologies for use of System and connection) any "housekeeping changes"⁴ to their methodologies as a result of our decision.

Northern Powergrid modification proposal

This modification was proposed by Northern Powergrid Yorkshire Plc and Northern Powergrid Northeast Limited (together, Northern Powergrid) in December 2011 following the September 2011 Decision. Northern Powergrid propose to modify their Use of System Charging Methodology to reflect developments in their business and facilitate the implementation of the EDCM for import charges. From 1 April 2012, they will charge EHV demand customers in accordance with the EDCM and EHV generations customers in accordance with their current methodology. They propose to continue not to charge EHV pre-2005 distributed generators on the basis of Ofgem's decision to delay the implementation of the EDCM for generation (export) customers.

Northern Powergrid have proposed to update their charging methodology statement in a manner that causes minimum disturbance to customers and stakeholders, by making mainly housekeeping changes. They have removed materials that would become irrelevant or misleading⁵ as a result of implementing the EDCM for import charges and updated section 4 of their statement to provide links to the EDCM for import charges. The changes proposed do not alter their existing methodology for charging EHV Generation customers.

The Authority's decision

We have assessed the issues raised by this proposal, taking into account the Relevant Objectives (a)⁶, (b),⁷ (c)⁸ and (d)⁹ as well as our principal objective and statutory duties. We have concluded that implementation of the proposal will better facilitate the achievement of relevant objectives (a) and (d). These are addressed in turn below.

- Northern Powergrid are required to develop and implement an EHV Distribution Charging Methodology under standard condition (SLC) 50A¹⁰ (Development and implementation of an EHV Distribution Charging Methodology). We believe that the changes proposed in the modification facilitate the discharge of this obligation.
- We consider that the proposed modification clarifies any potential ambiguity in Northern Powergrid's current methodology statement. The proposed modification

³ 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.

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

⁶ 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.

⁷ 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.

⁸ 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.

⁹ 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.

¹⁰ A copy of the licence can be found in the following link:

http://epr.ofgem.gov.uk/document_fetch.php?documentid=15992

ensures that Northern Powergrid's methodology statement unambiguously captures arrangements that reflect the EDCM for demand import charges and their existing methodology for EHV Generation charges. We believe the proposed changes take account of developments in the structure and governance of Northern Powergrid'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 Northern Powergrid's charging methodology.

Consequently, we have decided **not to veto** the modification to the Use of System Charging Methodology. However, we are 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,



Andrew Burgess
Associate Partner, Transmission and Distribution Policy

Signed on behalf of the Authority and authorised for that purpose