

Company Secretary
SP Distribution Limited
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Robertson Street,
Glasgow
G2 8SP

Your ref: SPEN-11-01
Direct Dial: 020 7901 7159
Email: Andy.Burgess@ofgem.gov.uk
Date: 19 December 2011

Dear Company Secretary,

Derogation pursuant to paragraph 13B.14 of Standard Licence Condition 13B (EHV Distribution Charging Methodology) of the Electricity Distribution Licence

I refer to your letter of 15 December 2011 requesting a derogation to be granted, pursuant to paragraph 13B.14 of the Electricity Distribution Licence (the "Licence"), in respect of the requirements of paragraph 13B.4 relating to the Extra High Voltage Distribution Charging Methodology (the "EDCM"). Paragraph 13B.4 requires that the Licensee must at all times implement and comply with the EDCM.

We acknowledge your request for a derogation to be granted to Scottish Power Energy Networks pursuant to paragraph 13B.14 to relieve its two licensees, SP Distribution Ltd and SP Manweb Plc (together "SPEN"), of their obligation to comply with the way Sole Use Assets (SUAs) costs are levied on EHV demand-only customers with un-expired capitalised operating & maintenance (O&M) costs paid at the time of connection. This is discussed in paragraphs 135 (b), and Annex 6, paragraphs 325(b) and 337-339 of the EDCM.

Areas of non compliance against the EDCM for demand customers

The derogation request seeks to relieve SPEN from complying with the way SUAs costs are levied on EHV customers as discussed in paragraph 135(b) and Annex 6, paragraphs 325(b) and 337-339 of the EDCM where the methodology for recovering direct operating costs associated with sole use assets (SUA) is prescribed. SPEN requests derogation to exempt EDCM import customers¹ from paying the fixed charge component which is associated with the direct operating cost element of sole use asset (SUA) charges in their import charge. The derogation request covers the 2012-13 charging year, and applies specifically to demand-only customers with un-expired capitalised O&M paid at time of connection. SPEN believe that these customers should be exempt from paying the O&M element of SUA costs as otherwise they will be paying twice for the same service.

Information provided by SPEN

We have considered the information provided by SPEN in reaching our decision on the request for derogation. We note that SPEN advised that -

- The approved EDCM methodology does not take into account any historical capitalised O&M paid by EDCM import customers. The derogation request would therefore prevent the EDCM customers from being overcharged as they have already paid charges relating to O&M.

¹ These are the EDCM demand-only customers with unexpired capitalised O&M paid at the time of connection.

- The revenue that would have been generated from these charges will as appropriate be recovered from all EDCM demand customers. The size of these reallocated charges relative to the EDCM pot size is very small so we do not think there is a need for a change to the size of the EDCM pot.
- The derogation will result in more cost reflective charges for customers and the areas of non-compliance do not impact on security of supply, competition or health and safety.

The Authority's decision

We have considered SPEN's request in accordance with our principal objective and statutory duties in light of the information provided by SPEN. We have considered, in particular, the principle underpinning the derogation request and those factors set out in the Guidance Note "Derogation from codes and standards in electricity generation, supply, and distribution and transmission licenses"². We have decided to grant derogation from the way SUA charges are levied on designated EHV customers as described in paragraph 135(b) and Annex 6, paragraphs 325(b) and 337-339 of the EDCM for the following reasons:

- we agree with the principle to prevent double charging EDCM customers during the transition between the old and recently approved EDCM for demand (import) customers; and
- the duration of the derogation request is relatively short (a single year) and SPEN has agreed to further explore the derogation issue through the DCUSA and other industry workgroups, and raised a change proposal as appropriate before the derogation period lapses to preserve the principle of having a common charging methodology.

Duration of the derogation

This derogation will expire on 31 March 2013, unless amended or revoked by the Authority upon reasonable notice.

This letter constitutes a notice for the purposes of section 49A of the Electricity Act in relation to the derogation.

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

²<http://www.ofgem.gov.uk/Networks/Techn/TechStandds/Derogtns/Documents1/090119DerogationsGuidance.pdf>