

Company Secretary
SP Distribution Limited
1 Atlantic Quay
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 Colleague,

Decision in relation to modification proposals to amend Use of System charging methodologies SPEN-11-01

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)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. 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 methodologies inappropriate. We also indicated that, as a minimum, we expected DNOs to submit for approval under standard condition (SLC) 13³ (Charging

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.

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.

methodologies for use of System and connection) any "housekeeping changes"⁴ to their methodologies as a result of our decision.

SPEN modification proposal

This modification was proposed by SP Distribution Ltd and SP Manweb Plc (together SPEN), in December 2011 following the September 2011 Decision. Following the September 2011 Decision, from 1 April 2012, SPEN will charge EHV demand customers in accordance with the EDCM and EHV generation customers in accordance with its current methodology. SPEN will continue not to charge for the export MPAN of any pre-2005 connected Distributed Generation (DG).

SPEN have proposed to update their charging methodology statement to remove materials that would become irrelevant or misleading⁵ as a result of implementing the EDCM for demand charges. The proposed modification introduces a section which clarifies the split of the DUoS methodologies into three areas: the CDCM, which is applicable to high and low voltage customers; the EDCM, applicable to the import charges for EHV customers; and existing legacy methodology for generation applied to EHV customers. Part 2, which relates to the EDCM, has been added. It ensures that customers better understand which parts of the methodology statement are applicable to specific customer groups.

SPEN also propose to review their current EHV generation (export) methodology to deal with the consequences of delaying the implementation of the EDCM for generator customers. The EDCM methodology recovers costs associated with Sole Use Assets (SUA)-including operating and maintenance, based on the relative import and export capacities of mixed sites. SPEN's existing methodology on the other hand, recovers these costs wholly from the demand component of mixed sites. This approach is not cost reflective and will result in overcharging the demand and undercharging the generation components of mixed sites.

Intention of the proposal

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

The Authority's decision

We have assessed the issues raised by this proposal, taking into account the Relevant Objectives (a)⁶, (b),⁷ (c) ⁸and (d)⁹ as well as our principal objective and statutory duties.

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*

We have concluded that implementation of the proposal will better facilitate the achievement of relevant objectives (a), (b), (c) and (d). These are addressed in turn below.

SPEN have an obligation under SLC 50A to develop and implement the EDCM and charges for import supplies for EHV customers. We believe that the changes proposed in the modification facilitate the discharge of this obligation.

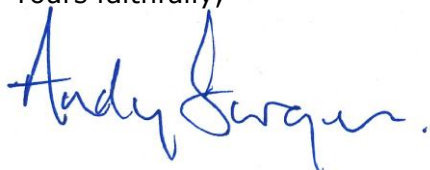
We consider this proposed modification makes charges more cost reflective by ensuring that SUA costs associated with mixed sites are allocated based on the customer's relative demand and generation capacity and not wholly on the demand capacity. The proposed modification also ensures that SUA charges for the generation component of a mixed site are not completely omitted. 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 SPEN's use of system charging arrangements do not discriminate between the demand and generation components of a customer's connection.

In our assessment, the changes proposed also take account of developments in the structure and governance of SPEN's charging methodologies. They remove parts that would become irrelevant or misleading¹⁰ as a result of implementing the EDCM and clarifies any potential ambiguity in SPEN's current methodology statement. They should ensure that SPEN's methodology statement unambiguously captures arrangements that reflect the EDCM for demand import charges and SPEN's existing methodology for EHV generation charges.

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



Andrew Burgess
Associate Partner, Transmission and Distribution Policy

Signed on behalf of the Authority and authorised for that purpose

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 All references to the SPEN's legacy EHV charges for import customers have been removed from their methodology statement.