

Company Secretary
London Power Networks Plc
Eastern Power Network Plc
South Eastern Power Networks Plc
Newington House
237 Southwark Bridge Road
London
SE1 6NP

Your ref: SSEPD/11/001
Direct Dial: 020 7901 7194
Email: Rachel.Fletcher@ofgem.gov.uk
Direct Dial: 020 7901 7194
Date: 15 December 2011

Dear Colleague,

Decision in relation to UKPN November 2011 Use of System Modification - 36

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

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.

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.

UKPN modification proposal

This proposed modification was proposed by London Power Networks plc, Eastern Power Networks) plc, and South Eastern Power Networks Plc (together, UKPN) in November 2011 following the September 2011 Decision. UKPN proposes 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, UKPN will charge EHV demand customers in accordance with the EDCM and EHV generations customers in accordance with their current methodology.

UKPN 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 import charges. They have reorganised the sections in the methodology statements for ease of read, and improved the clarity of the Site Specific Generation methodology to account for developments consequential to the September 2011 Decision. 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)⁷, (b),⁸ (c)⁹ and (d)¹⁰ 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:

- UKPN are required to develop and implement an EHV Distribution Charging Methodology under standard condition (SLC) 50A¹¹ (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 this proposed modification clarifies any potential ambiguity in UKPN's current methodology statement. The proposed modification ensures that UKPN's methodology statement unambiguously captures arrangements that reflect the EDCM for demand import charges and UKPN's existing methodology for

⁶ These are mainly housekeeping changes such as appropriate referencing and including pointers to further background information.

⁷ *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.*

⁸ *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.*

⁹ *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.*

¹⁰ *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.*

¹¹ A copy of the licence can be found in the following link:
http://epr.ofgem.gov.uk/document_fetch.php?documentid=15992

EHV Generation charges. We believe the proposed changes take account of developments in the structure and governance of UKPN'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 UKPN'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,

A handwritten signature in black ink, appearing to read 'Rachel Fletcher', is positioned above the typed name.

Rachel Fletcher
Acting Senior Partner, Smarter Grids and Governance: Distribution

Signed on behalf of the Authority and authorised for that purpose