

Modification proposals:	Western Power Distribution's¹ (WPD) proposals to align the company specific sections of its four licensees' connection charging methodologies: WPD-022 and WPD-023		
Decision:	The Authority ² has decided not to veto these proposals ³		
Target audience:	DNOs, IDNOs, Suppliers, Generators and other interested parties		
Date of publication:	1 December 2011	Implementation Date:	1 December 2011

Background

WPD acquired Central Networks East plc and Central Networks West plc on 1 April 2011 and now owns four licensed Distribution Network Operators ("DNOs"): Western Power Distribution South Wales plc ("WPD S.Wales"), Western Power Distribution South West plc ("WPD S.West"), Western Power Distribution East Midlands plc ("WPD East") and Western Power Distribution West Midlands plc ("WPD West").

In accordance with standard licence condition ("SLC") 13 of their electricity distribution licences (the "Licence"), each of WPD's DNOs is required to have in force at all times a connection charging methodology ("Methodology"), which the Authority has approved on the basis that it achieves the relevant objectives.⁴ Each licensee must review its Methodology at least once every year and make such modifications (if any) to the Methodology as are necessary for the purpose of better achieving the relevant objectives.

In October 2010 all DNOs, including those owned by WPD, adopted a largely common connection charging methodology comprising a section common to all DNOs (the "Common Methodology") and a section specific to each DNO (the "Company Specific Methodology").

At present (pre-modification) WPD uses two distinct sets of Company Specific Methodologies; one used by both WPD S.Wales and WPD S. West, the other by WPD East and WPD West.

Summary of WPD's proposals

On 28 November 2011, WPD submitted two modification reports that set out its proposals to modify its connection charging methodologies: WPD-022 and WPD-23. WPD-022 sets out the proposed changes to WPD S.Wales's and S.West's Methodologies. WPD-023 sets out the proposed changes to WPD East's and WPD West's Methodologies. The primary purpose of this modification is to align the Company Specific Methodologies of WPD

¹ This letter applies to all four WPD licensees. For the avoidance of doubt, where we refer to WPD in this letter, we are referring to all four of these licensees.

² The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

³ This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

⁴ The 'relevant objectives' for the connection charging methodology, as contained in paragraph 3 of Standard Licence Condition 13 of the licence are:

- (a) that compliance with the methodology facilitates the discharge by the licensee of the obligations imposed on it under the Electricity Act 1989 and by its licence;
- (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;
- (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; and
- (d) that, so far as is consistent with sub-paragraphs (a), (b) and (c), the methodology, as far as is reasonably practicable, properly takes account of developments in the licensee's Distribution Business.

S.Wales and WPD S.West with the Company Specific Methodologies of WPD East and WPD West.⁵

WPD proposes to do this by choosing for each subject covered in its DNOs' current Company Specific Methodologies the wording it considers best achieves the relevant objectives. Where it considers the wording in WPD S.Wales's and WPD S.West's current Methodologies better achieves the relevant objectives than the wording in WPD East's and WPD West's Methodologies it will use that wording, and vice versa. Or, where a topic is not covered in one set of DNO's Company Specific Methodology, the wording from the other set's Company Specific Methodology will be used.

WPD is also amending the Methodologies of WPD East and WPD West to clarify that a connection agreement may include non-standard terms without the need to create a special agreement under Section 22 of the Electricity Act 1989. The amended version of this provision will also be inserted into WPD S.Wales's and WPD S.West's Methodologies.

WPD proposes to make the following changes to WPD S.Wales's and WPD S.West's Methodologies:

- Add a paragraph explaining WPD's policy in respect of the negotiation of non standard terms and conditions for connection and point of connection offers. This wording replicates the relevant amended section of WPD East's and WPD West's Methodologies. (New paragraph 6.20)
- Add text explaining WPD's requirements in respect of land and access rights, and its powers of compulsory purchase under the Electricity Act 1989 (the "Act"). This wording is copied directly from the pre-existing text of WPD East's and WPD West's Methodologies. (New paragraphs 6.21-23)
- Make a very minor amendment to tidy up the document. (Paragraph 6.2)

WPD proposes to make the following changes to WPD East's and WPD West's Methodologies:

- Amend the description of WPD's payment terms in order to provide further explanation of phased payments. This wording is copied directly from the pre-existing text of WPD S.Wales's and S.West's Methodologies. (New paragraph 6.3)
- Add wording explaining WPD's charging policy in respect of Operation, Repairs and Maintenance (OR&M). This wording is copied directly from the pre-existing text of WPD S.Wales's and S.West's Methodologies. (New paragraphs 6.4 and 6.5)
- Add wording explaining that WPD may charge customers for costs associated with disconnection, including the recovery of network assets, and setting out timescales for disconnection. This wording is copied directly from the pre-existing text of WPD S.Wales's and WPD S.West's Methodologies. (New paragraph 6.20)
- Amend wording explaining where special agreements under Section 22 of the Act may apply. This clarifies that a connection agreement may include non-standard terms without the use of a special agreement under Section 22. The previous text incorrectly implied that any terms outside of WPD's standard terms and conditions would require a Section 22 agreement. (New paragraph 6.21)
- Make some very minor amendments to tidy up the document. (Paragraphs 6.2 and 6.24, and section 8)

WPD also proposes to include a number of additional examples in its Common Methodology (the new text has been added to the end of section 5 of WPD East's and WPD West's Methodologies). These examples are also included in all other DNOs'

⁵ WPD is not amending the inspection and monitoring sections of its methodologies, which will continue to differ from each other.

Common Methodologies and were omitted from WPD East's and WPD West's current methodologies by mistake.

Reasons for the Authority's decision

We consider WPD's proposals add consistency and transparency to connection charging. This should allow customers to better understand connection charges across WPD's distribution areas. We do not consider that any of the specific changes have a negative impact in respect of the relevant objectives.

In coming to its decision not to veto these proposals, the Authority has considered the proposed modifications against the relevant objectives, the Authority's principal objective and the Authority's wider statutory duties⁶.

Our decision is based on WPD's proposals better achieving relevant objectives (b) and (d), as set out below.

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;

The Authority considers that, by adding consistency and transparency to its Methodology, WPD's proposals will better allow customers to understand and estimate connection charges. This may facilitate competition in the connections markets in two ways. First, customers that are better able to understand connection charges may find it easier to make an informed choice between connection providers. Second, independent connection providers will be better able to estimate the non-contestable charges they are likely to be subject to for a given connection scheme. Therefore, the Authority considers that WPD's proposals better achieve relevant objective (b).

Relevant objective (d) - that so far as is consistent with sub paragraphs (a), (b) and (c), the methodology, as far as is reasonably practicable, properly takes account of developments in the licensee's distribution business.

It is our view that by taking account of WPD's purchase of WPD East and WPD West, this modification takes account of developments in all four DNOs' businesses. Therefore, we consider that the change better achieves relevant objective (d).

If you have any questions relating to the issues discussed in this letter please contact Donald Smith, either at donald.smith@ofgem.gov.uk or on 0141 331 6014.

Yours faithfully,



Rachel Fletcher

Acting Senior Partner, Distribution

Signed on behalf of the Authority and authorised for that purpose

⁶ The Authority's statutory duties are detailed mainly in the Electricity Act 1989, Gas Act 1986, Utilities Act 2000, Competition Act 1998, Enterprise Act 2002 and the Energy Act 2004 as well as arising from directly effective E.C. legislation.