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Date: 30 April 2013

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SSE Use of System Charging Methodologies: Our decision under standard condition 13 on proposed changes to the statement for embedded distribution networks in other DNO areas

Summary

This letter confirms that we will not veto the proposed changes by SSE to its Use of System Charging Methodologies to facilitate a separate statement for its embedded distribution networks in other DNO areas. This applies across England, Wales and Scotland. We reached this decision following our assessment of DNO's charging objectives in the distribution licence and our principal objective and duties. The changes unambiguously capture arrangements that reflect the Extra High Voltage (EHV) Distribution Charging Methodology (EDCM)¹ both for import and export charges.

Background

In September 2011², we³ approved the EDCM for demand (import) customers. Charges following this methodology commenced on 1 April 2012. We decided to defer our decision on the EDCM for generation (export) customers for implementation in April 2013 (at the earliest) to provide greater clarity around the arrangements for distributed generators (DG) connected pre-2005, which were at the time, exempt from Use of System charges. On 16 November 2012, we published our decision (the November 2012 Decision) to approve the EDCM for export charges⁴, subject to one condition.⁵ Following the November 2012 Decision, DNOs have now created a combined EDCM for import and export charges, with the EDCM for exports taking effect from 1 April 2013.

¹ The EDCM is the use of system charging methodology for Extra High Voltage network users.

² "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>

³ For the remainder of this letter, references to 'we' shall be taken to mean the Authority and Ofgem unless we state otherwise.

⁴ The EDCM for export decision can be found in the link:

[http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/EDCM%20for%20export%20\(condition\)%20-%20decision%20letter%20-%205Dec12.pdf](http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/EDCM%20for%20export%20(condition)%20-%20decision%20letter%20-%205Dec12.pdf)

⁵ This condition required that the Methodology would not incorporate credits within the calculation of export charges for intermittent generators.

We recognised that the phased approach adopted for the implementation of the EDCM might result in issues that would require addressing. In particular, we noted possible issues involving the charging of mixed demand-generation sites.⁶ As a minimum, we expected DNOs to submit any housekeeping changes⁷ necessary to their methodologies as a result of our decision. This would involve modifications to their charging methodology statements and were to be submitted under standard condition (SLC) 13⁸ (Charging Methodologies for Use of System and connection) for approval by the Authority.

SSE modification proposal

Scottish Hydro Electric Power Distribution plc and Southern Electric Power Distribution plc (together, SSE) proposed a modification in January 2013 following the November 2012 Decision.⁹ To facilitate the implementation of the EDCM export charging methodology, SSE has proposed the following changes to its methodology statements:

- removal of previous references in the Use of System Charging Methodology Statement to Out of Area Networks and Nested Distribution systems in Out of Area Networks. This is because these will now be included in a separate methodology statement;
- SSE's Out of Area Networks and Nested Distribution Systems in Out of Area networks will be charged in a manner which ensures that charges paid by the customers do not exceed those to which they would be liable if connected to the network of the "host" DNO;
- removal of previous references in Part B2 of the Use of System Methodology Statement to EHV Generation tariffs as these are no longer relevant following the removal of the non-common export charging methodologies;
- introduction of export charging for the first time to designated EHV properties which are classified as pre 2005 distributed generation; either from 1 April 2013 or from the end of specific exemptions¹⁰ as appropriate; and
- re-formatting the statements to improve clarity and ease of reference for users.

⁶ Mixed sites are single sites or customer with two EDCM tariffs, one associated with demand (import) and the other with generation (export) connections. An issue this may raise and that might require a modification of the existing methodology is 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.

⁷ Housekeeping changes are mainly cosmetic in nature such as amending references and deleting materials that have become irrelevant as a result of our decision.

⁸ 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 us on the basis that it achieves the Relevant Charging Objectives.

⁹ Following the November 2012 Decision, SSE's Export Use of System charges will be set using the Forward Cost Pricing (FCP) EDCM export methodology from 1 April 2013.

¹⁰ On 10 February 2012, we offered an exemption from use of system charges for distributed generators who connected to DNO networks before April 2005. Details of this decision can be found in following link:

<http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/Decision%20letter%20on%20Pre-2005%20exemption.pdf>

Our decision

We have assessed the issues raised by this proposal, taking into account the relevant charging objectives (a)¹¹, (b),¹² (c)¹³ and (d)¹⁴ under Standard License Condition (SLC) 13.3 as well as our principal objective and statutory duties. We consider this proposed modification clarifies any potential ambiguity in SSE's current methodology statement. The proposed modification ensures that SSE's methodology statement unambiguously captures arrangements that reflect the EDCM both for import and export charges.

The proposed modification also clarifies the charging methodology that applies to high voltage, low voltage and EHV customers using SSE's embedded distribution networks in other DNO areas in England, Wales and Scotland. The proposal will not only ensure a better understanding of which parts of the methodology statement are applicable to specific customer groups, but will enable SSE to set appropriate site specific charges for customers metered at EHV and at EHV/HV substation¹⁵.

We believe the changes proposed take account of developments in the structure and governance of SSE's charging methodologies. Consequently, we have decided **not to veto** the modification to the Use of System Charging Methodology.

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 & Distribution Policy

Signed on behalf of the Authority and authorised for that purpose

¹¹ Charging Methodology 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.

¹² Charging Methodology 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

¹³ Charging 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.

¹⁴ Charging Methodology 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.

¹⁵ The charges will reflect the local network and connection configuration, and will include the "host" DNO's boundary EDCM use of System charge for the site, and costs associated with fulfilment of SHEPD's obligation to provide a safe and secure distribution network.