

Modification proposal:	Amendment to UK Power Networks (Eastern Power Networks plc; London Power Networks plc and South Eastern Power Networks plc) Connection Charging Methodology and Statement - revision of table reflecting margins to be charged in different Relevant Market Segments.		
Decision:	The Authority ¹ has decided not to veto this proposal. ²		
Target audience:	Distribution Network Operators (DNOs), Independent Distribution Network Operators (IDNOs), Independent Connection Providers (ICPs) and other interested parties.		
Date of publication:	11 November 2013	Implementation Date:	As soon as is practical after the date of this decision or by 18 November 2013

Background to the modification proposal

In accordance with standard licence condition (SLC) 13 of the Electricity Distribution Licence ('the Licence'), all Distribution Network Operators (DNOs) are required to have in force at all times a Connection Charging Methodology ('the Methodology') which has been approved by us.

Since 1 October 2010, the DNOs' Methodologies have contained a section common to all DNOs (the 'Common Connection Charging' Methodology or 'CCCM') and a section specific to each DNO (the Statement of Methodology and Charges for Connection (the 'Statement')).

Each DNO must review their Methodologies at least once every year and make such modifications (if any) to their Methodologies as are necessary for the purpose of better achieving the relevant objectives.

Each DNO sets out in its Statement the scope of connection services that competitive providers are permitted to undertake on its network. Activities that competitors can undertake are described as contestable and those that can only be carried out by the DNO are non-contestable. Some services may be designated as non-contestable by a DNO for technical or safety reasons.

Each DNO is allowed to charge a margin on certain elements of connections work, in accordance with Charge Restriction Condition (CRC) 12 of their Licence. The margins (whether 'regulated' or 'unregulated') are set out in their Statements.

On 19 April 2013 UK Power Networks (UKPN) gave us Competition Notices on behalf of its three licensees: Eastern Power Networks plc (EPN); London Power Networks plc (LPN)

¹ The terms 'the Authority', 'Ofgem', 'we' and 'us' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

and South Eastern Power Networks plc (SPN) (herein referred to as UKPN's three Distribution Service Areas (DSAs)).

On 15 August 2013 we issued a decision³ on UKPN's application to charge an unregulated margin on certain contestable connections services in three Relevant Market Segments (RMSs) in the three DSAs.

UKPN's modification proposal

On 18 October 2013, UKPN submitted, in accordance with SLC 13.4, a proposal for changes to be made to its Statement. It proposes to update the relevant table in its Statement to reflect our decision on the margins to be charged in respect of the different RMSs. The proposed changes to the table in the '*Statement of Methodology and Charges for Connection to the Electricity Distribution Systems of Eastern Power Networks PLC, London Power Networks PLC and South Eastern Power Networks PLC*' are set out in Appendix A.

UKPN considers that these changes better facilitate Relevant Objectives (a), (b) and (d) in paragraph 13.3 of the Licence in relation to the Charging Methodology. This is because they provide increased clarity for customers in respect of charges that will apply, and act to facilitate increased levels of competitive connections activity, taking into account the requirements of CRC 12.

Reasons for the Authority's decision

We have decided **not to veto** UKPN's proposed modifications to its Statement. In coming to this decision, we have considered the proposed modifications against the relevant objectives and our principal objective and wider duties.⁴

The relevant objectives in relation to the Charging Methodology are:

- (a) that compliance with the methodology facilitates the discharge by the licensee of the obligations imposed on it under the Act and the 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.

We have made our decision on the basis that UKPN's proposals better achieve relevant objectives (a), (b), and (d).⁵ The reasons for this decision are set out below.

³https://www.ofgem.gov.uk/sites/default/files/docs/decisions/ukpn_competitionnotice_determination_15.08.13.pdf

⁴ The Authority's statutory duties are detailed mainly in the Electricity Act 1989 (as amended) as well as arising from European Union legislation.

⁵ Our decision not to veto this modification proposal does not in any way constitute any form of approval, guidance or comfort in respect of WPD's compliance with competition law.

The reasons supporting our decision to allow UKPN to charge unregulated margins in certain market segments are contained in a document which is available on our website.⁶ We consider that this modification proposal is necessary to reflect that decision, and it:

- (a) better facilitates the discharge of the licensee's obligations under the Licence (CRC 12. Licensee's Connection Activities: Margins and the development of competition);
- (b) better facilitates competition by providing clarity to customers on the margins which will be charged in the different RMSs, and by facilitating increased levels of connections activity; and
- (c) takes account of developments in the Distribution Business reflecting progress in developing competition in certain RMSs.

Timetable for implementation

UKPN intends to implement the proposed changes contained within this modification application on 18 November 2013 or following approval, whichever is sooner.

If you have any questions relating to the issues discussed in this letter please contact Lesley Ferrando at Lesley.Ferrando@ofgem.gov.uk or on 0207 901 1808.



Andrew Burgess
Associate Partner, Transmission and Distribution Policy
Signed on behalf of the Authority and authorised for that purpose

⁶https://www.ofgem.gov.uk/sites/default/files/docs/2013/08/ukpn_competition_notice_-_reasons_document.pdf

Appendix A:

Proposed changes to Statement of Methodology and Charges for Connection to the Electricity Distribution Systems of Eastern Power Networks plc, London Power Networks plc and South Eastern Power Networks plc

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Margin included in Connection Offers

- 6.28 We are allowed to charge a margin on certain elements of connections work as allowed by our Licence. Margins can only be applied to Contestable Work (construction of Extension Assets and other activities as set out in paragraphs 6.7 to 6.13).
- 6.29 The margin (if any) is either “regulated” which is set at 4% by our Licence or is “unregulated” which is not set by our Licence. Our ability to apply these two types of margin is governed by the Authority.
- 6.30 The table below indicates which type of margin is included in our charges for each type of work.

	Regulated Margin	Unregulated Margin
In respect of Metered premises owned or occupied by Demand Customers:		
(i) Single LV Service Demand Connections: defined in Section 7.6	N/A	N/A
(ii) Small Project Demand Connections: defined in Section 7.6	N/A	N/A
(iii) LV work: other low voltage Connection Activities involving only low voltage works.	Yes	No
(iv) HV work: low voltage or high voltage Connection Activities involving high voltage work	Yes	No
(v) HV and EHV work: low voltage or high voltage Connection Activities involving extra high voltage work.	YesNo	NoYes
(vi) EHV work and above: extra high voltage and 132kV Connection Activities.	YesNo	NoYes
In respect of Metered premises in which Distributed Generation is situated:		
(vii) LV work: low voltage Connection Activities involving only low voltage work.	Yes	No
(viii) HV and EHV work: any Connection Activities involving work at high voltage or above.	No	Yes
In respect of unmetered premises:		
(ix) LA work: New Connection Activities in respect of local authority premises.	LPN Yes EPN No SPN No	LPN No EPN Yes SPN Yes
(x) PFI work: New Connection Activities under private finance initiatives.	No	Yes
(xi) Other work: all other non-local authority and non-PFI unmetered connections work.	Yes	No