

Modification Proposal	
Modification – Update of the Connection Charging Methodology Statement for Operation and Maintenance Charges	
Date Submitted: 04/12/17	Version number: V1
Details of Proposal: Proposed Changes to Operation and Maintenance Charges	
<p>In order to introduce Quicker and More Efficient Connections, in April 2016 we committed to standardise our flexible connections application process: <i>“We are currently developing a standardised application process for flexible generation which will include each type of flexible connection (listed in Annex 1) we supportAt the moment this is only available for Connect+ and ANM. All customers will be able to directly request flexible connections and to have the opportunity to discuss these options with our Commercial Connections and Active Solutions teams. This engagement, along with the connection offer, will allow the customer to determine whether flexibility will benefit their connection and can help customers get a quicker connection despite network constraints”</i>¹. Our new flexible connection application process will allow customers to apply directly for a flexible connection, if they have previously applied for a standard connection and found network constraints were a barrier to connection.</p> <p>To help facilitate these arrangements Scottish Hydro Electric Power Distribution (SHEPD) and Southern Electric Power Distribution (SEPD) request to modify their Statements of Methodology and Charges for Connection, also known as Connection Charging Methodology Statement (CCMS), to include modifications to the Operation and Maintenance (O&M) Charges section. This follows growing demand from customers across both networks and will help ensure there is greater clarity and cost reflectivity in the way in which O&M costs will be calculated and applied for flexible connections.</p> <p>At the same time, we have proposed a number of other changes to ensure arrangements remain transparent, cost reflective and fair in terms of O&M charges that we apply to all other connections.</p> <p>Please note when referring to a ‘flexible connection’ we mean a connection that allows new customers to connect to the network without traditional reinforcement, even when the capacity requested by that customer exceeds the peak limits. DNOs do this on the basis that the customer agrees to being constrained off when the network approaches its capacity limits.²</p>	
Description of the changes:	

¹ Commitment made to Ofgem in April 2016: Constraints consultation response

² As referred to in Ofgem’s QMEC Update January 2016:

https://www.ofgem.gov.uk/system/files/docs/2016/01/quicker_and_more_efficient_connections_jan_2016_-_final_29.01.2016_0.pdf

Proposed Modification of Operation and Maintenance Charges Section of the CCMS

We plan to amend sections 6.24 to 6.33 of the CCMS to make the following changes:

- (1) Remove reference to agreeing an annual service charge for O&M for standard connections
- (2) Amend the O&M charges applicable including aligning charges for demand and generation
- (3) Remove the granular detail on how the O&M percentages are calculated
- (4) Include information on how operation and maintenance charges will be calculated for flexible connections.
- (5) Remove paragraph 6.24 to ensure a consistent approach between demand and generation connections.

Each change is taken in turn below to explain the nature of the change and reasons for proposing the change.

1. We propose to remove the reference to agreeing an annual service charge for O&M in section 6.29 of the CCMS. To ensure a fair and consistent approach across all of our customers we currently capitalise O&M costs and include them as part of the connection offer. By removing this sentence we will provide greater clarity to customers. The exception to this will be for flexible connections, where in some cases we incur an annual service charge from third party providers, which will be passed on to the relevant flexible connection customer annually as set out under (4) below.
2. We propose to align the O&M percentages applicable to demand and generation and to set the O&M percentage for both in section 6.30 on the basis of the voltage of the connection: 21% for LV and HV connections; and 25% for EHV and 132kV connections. All distributed generation connections are now subject to Use of System charges and the treatment of asset replacement in relation to distributed generation should therefore be aligned with demand connections.

The annual O&M charge is estimated as 1.25% of capital expenditure for LV and HV and 1.5% for EHV and 132kV demand and generation connections. (When applied on a straight line basis discounted back to the point of charging over a 25 year period, this gives the up front amount of 21% and 25% respectively).

NOTE: The discount rate used in the calculation of 3.5% is reflective of both the RIIO-ED1 weighted average cost of capital (WACC) and also the social discount rate used by HMT Green Book.

3. We propose to remove the granular detail on how the O&M percentage is calculated. We do not consider this additional detail to be helpful to customers nor to add any value. We note that other DNOs do not include this level of detail.
4. We propose to add paragraph 6.31 to ensure it is clear that for flexible connections, where there are additional third party costs incurred by us in operating the flexible connection, the additional costs will be charged to the customer on an annual basis given they are bespoke and specific to the connection. An example of this is the specific costs which are charged to operate and run the Active Network Management scheme. Any other operation and maintenance charges associated with the connection will continue to be applied in the same way as for other standard connections.
5. We propose to delete paragraph 6.24 which states that "Unless agreed otherwise with us, necessary replacement of age-expired sole user assets which have been installed for the purposes of connection of a generator will be at the expense of that generator, although the replacement cost may be shared to the extent that the generator does not have sole use of those assets." All distributed generation connections are now subject to Use of System charges

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Licence objectives:

Standard Licence Condition 13: Charging Methodologies for Use of System and connection requires the licensee to at all times have in force and comply with a Charging Methodology approved by the Authority covering Use of System and Connections. The methodology must achieve the Relevant Objectives which include:

- Facilitating the discharge of obligations under the Act and Licence;
- Facilitating competition;
- As far as is reasonably practicable, ensuring charges reflect costs incurred; and
- Ensuring charges reflect developments in the Licensees Distribution business.

Licence condition 14.1 requires the licensee to have a connection charging statement that sets out the basis on which charges will be made for the provision of connections to the licensee's Distribution System. The connection charging statement must be available at all times in a form approved by the Authority.

Licence condition 14.3 states that, except with the Authority's consent, the charging statements available under paragraph 14.1 must be presented in such form and with such detail as would enable any person to make a reasonable estimate of the charges for which he would become liable in respect of the provision of connections to the licensee's Distribution System.

Why the proposal complies with the relevant licence conditions:

The changes that are proposed to the CCMS will ensure more cost reflective charging for O&M, both for standard connections and for flexible connections. They also reflect developments in SHEPD and SEPD's Distribution business, moving towards providing flexible connections as a standardised process under business as usual and draw on experience of flexible connections to date. The key benefits of flexible connections are to facilitate quicker connections despite network constraints which in turn helps facilitate competition in generation. Furthermore, proposals ensure greater clarity and transparency for customers which should improve customer satisfaction and also help facilitate competition.

Conclusions:

These proposals allow SHEPD and SEPD to continue to comply with the relevant licence conditions while facilitating flexible connections and competition in generation. Proposals also provide greater clarity for customers which should in turn improve customer satisfaction. We propose to implement these modifications on 15 January 2017.