

## Modification Proposal

**Modification number: 0001/2006**

Clarification of the EHV asset valuation and OR&M calculation for dedicated assets in section 4.2.1 & 4.2.3 of the Use of System Charging Methodology for both NEDL & YEDL.

**Date Submitted: 20 July 2006**

**Version number: 1.6**

**Date Approved:**

**Date Rejected:**

**Implementation Date: 1 August 2006**

### Details of Proposal:

CE Electric UK proposes to clarify section 4.2.1 and 4.2.3 of our existing UoS methodology, for calculating site specific EHV demand charges. This change will apply to both Yorkshire Electricity Distribution plc (YEDL) and Northern Electric Distribution Ltd (NEDL). We are not introducing anything new in the approach used to calculate EHV charges. The change is purely to provide greater transparency and clarification in the methodology statement of our current approach to the EHV asset valuation and OR&M charges. In particular the application for dedicated assets, which are utilised for both demand and generation.

A track changed copy of our methodology statement is attached and as mentioned above we believe it provides more detail and greater transparency for the calculation of the asset valuation and OR&M charges.

### Description of the changes:

Our existing methodology statement only shows a single equation under the asset valuation and OR&M sections. However, having reviewed this we feel that introducing a second equation provides more clarity of the way our model works for those sites with dedicated assets which are used for both demand and generation. **Please note** we are not changing the method by which this calculation is done. Hence:

- When the asset is shared with other customers (i.e. not dedicated), the cost is attributed based on the ratio of the customer agreed capacity and the rating of the asset; and
- The second (new equations) applies when the asset is dedicated or sole use (i.e. not shared with other customers). In this circumstance the costs are attributed based on the proportion of the agreed capacities for demand and generation:
  - For demand only sites the proportion will be 100% (e.g. if a dedicated asset was used to provide a demand agreed capacity of 6MVA and no generation capacity, the proportion would be  $6/(6+0) = 100\%$  allocated to demand); and
  - For sites with both demand and generation the proportion will be a value less than 100% (e.g. if a dedicated asset was used to provide a demand agreed capacity of 6MVA and a generation agreed capacity of 36MVA the proportion would be  $6/(6+36) = 14.3\%$  allocated to

demand)

There are no consequential impacts on the charges to EHV customers, or other industry documents and it has no adverse effect on competition.

**Licence objectives:**

The Use of System Charging Methodology has the following objectives set out in Standard Licence Condition 4:

- (a) that compliance with the Use of System Charging Methodology facilitates the discharge by the licensee of the obligations imposed on it under the Act and by the Licence;
- (b) that compliance with the Use of System Charging 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 Use of System Charging Methodology results in charges which reflect, as far as reasonably practicable, 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 Use of System Charging Methodology, as far as is reasonably practicable, properly takes account of developments in the licensee's distribution business.

**Why the proposal better meets the objectives:**

Having reviewed our methodology we believe the proposed change better meets the objective set out in Standard Licence Condition 4 in particular section (c) above as it provides a fair attribution of the dedicated assets where these are used for both demand and generation. It also provides more transparency for suppliers and end users.

It should be noted that there are no consequential impacts on charges, or other industry documents and it has no adverse effect on competition

**Conclusions:**

As this is merely a clarification of our methodology, rather than the introduction of something new, we would like to introduce this from the 1 August 2006. We would therefore ask Ofgem to consider this proposal and inform us of their decision. The new version will be 1.6.