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| Modification proposal: | Amendment proposal to EDF Energy Network's¹ ("EDF") Connection Charging Methodology: Cost Apportionment Rules (EDFE Mod 32) | | |
| Decision: | The Authority ² directs that this proposal is not vetoed ³ | | |
| Target audience: | DNOs, IDNOs, Suppliers, Generators and other interested parties | | |
| Date of publication: | 5 February 2010 | Implementation Date: | 5 February 2010 |

Background to the modification proposal

In accordance with standard licence condition ("SLC") 13 of its Electricity Distribution Licence, EDF 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 Objectives⁴. EDF must review the 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.

The connection charging apportionment rules ("Apportionment Rules") came into effect on 1 April 2005, replacing the '25% rule' that had been in place previously. The Apportionment Rules are explained in the Methodology and describe what portion of any connection related network reinforcement ("Reinforcement") costs are borne by a connectee. They apply to connecting customers and existing customers increasing the capacity of their connection.

After the introduction of the Apportionment Rules, it became apparent that EDF's Methodology was unclear as to how the rules should be applied to customers seeking to increase the capacity of an existing connection. Ofgem encouraged EDF to bring forward a modification to their Methodology in order to clarify the matter.

The modification proposal

On 8 January 2010, EDF submitted a proposal to the Authority to modify their Methodology⁵. EDF propose to modify the Methodology to make it clear that the Apportionment Rules will be applied to customers seeking to increase the capacity of their connection based on the increase to the capacity of their connection and any other increases to the capacity of their connection within the previous 5 years.

¹ EDF Energy Networks owns three electricity distribution licensees – Eastern, London and Southern Power Networks. This letter applies to the three 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.

⁵ A copy of EDF's modification report can be found on Ofgem's website at

<http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgMods/Pages/DistChrgMods.aspx>.

Reasons for the Authority's decision

In coming to its decision **not to veto** this proposal, the Authority has considered the proposed modification against the Relevant Objectives and the Authority's wider statutory duties⁶. The specific reasons for our decision are detailed below.

Relevant Objective (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

We consider that EDF's proposal better achieves Relevant Objective (a) for the reasons set out below.

EDF is obliged by SLC 13.1 of the Licence to have a connection charging methodology. Charging Methodology is defined in SLC1 to mean '*a complete and documented explanation, presented in a coherent and consistent manner, of the methods, principles, and assumptions that apply in relation to connections, for determining [EDF's] Connection Charges*'. The Authority considers that the existing Methodology is unclear as to whether the Apportionment Rules will be applied to customers increasing the capacity of an existing connection based on the increase in capacity or the total capacity. The Authority considers that by clarifying the way in which the Apportionment Rules will be applied, EDF's proposals better facilitates the discharge by EDF of its obligations under SLC 13.1.

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.

We consider that EDF's proposal better achieves Relevant Objective (b) for the reasons set out below.

Clearer explanation of the application of the Apportionment Rules within the Methodology will allow distributed generators, other developers and independent connection providers to estimate more accurately the costs they will be subject to, upon connection or the provision of a connection and could promote effective competition in both areas.

Relevant Objective (d) - that, so far as is consistent with Relevant Objectives (a), (b) and (c), the connection charging methodology, as far as is reasonably practicable, properly takes account of developments in the licensee's Distribution Business.

We consider that EDF's proposal better achieves Relevant Objective (d) for the reasons set out below.

The Distribution Network Operators ("DNOs"), in association with other industry stakeholders, are currently developing a common connection charging methodology (the "Common Methodology") that will include a common approach to the Apportionment Rules. It is intended that all DNOs adopt the Common Methodology by 1 July 2010. EDF's

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.

modification makes it clear that they are broadly aligned with the industry approach to the Apportionment Rules that is to be adopted as part of the Common Methodology.

The Authority considers that the development and adoption of the Common Methodology constitutes a development in EDF's distribution business and that, by clarifying that its approach to the Apportionment Rules is in line with the rest of industry, EDF's proposals properly take account of this development.

If you have any questions relating to the issues discussed in this letter please contact Donald Smith at donald.smith@ofgem.gov.uk or on 0207 901 7483.

Yours faithfully,

Rachel Fletcher,

Rachel Fletcher, Partner, Distribution

Signed on behalf of the Authority and authorised for that purpose