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for energy consumers

Company Secretary
SP Manweb plc
Prenton Way
Birkenhead
Merseyside
CH43 3ET

Direct Dial: 020 7901 7159
Email: Andy.Burgess@ofgem.gov.uk

Date: 20 December 2013

Dear Company Secretary,

Derogation pursuant to paragraph 13B.14 of Standard Licence Condition 13B (EHV Distribution Charging Methodology) of the Electricity Distribution Licence

I refer to your letter of 13 September 2013 requesting an extension for the year 2014-15 of the derogation that we granted to cover the current year¹. This derogation applies to both SP Distribution plc and SP Manweb plc (together Scottish Power Energy Networks (SPEN)). It removes their obligation to charge Extra High Voltage (EHV) customers for Sole Use Asset (SUA) costs² according to the EHV Distribution Charging Methodology (EDCM). This is required because SPEN already has bilateral contracts to recover costs relating to these assets with some of their customers. The derogation prevents these customers from paying once under pre-arranged terms with SPEN the Distribution Network Operator (DNO) and paying again for the same assets under the EDCM.

This letter confirms that we extend this derogation for the year from 1 April 2014 to 31 March 2015.

Areas of non-compliance against the EDCM for demand customers

This, like the present derogation, applies to SPEN. It relieves them of their obligation to comply with the way that Sole Use Asset (SUA) costs are levied on certain EHV demand customers³, discussed in paragraphs 135(b), and Annex 6, paragraphs 325(b) and 337-339 of the EDCM. It specifically applies to EDCM customers with un-expired capitalised operating and maintenance (O&M) costs at the time of connection, preventing them from paying through two different mechanisms for the same service.

The present derogation expires on 31 March 2014. Our decision extends this for a further year from 1 April 2014.

¹ SUA are assets in which only the consumption or output associated with a single connectee can directly alter the power flow in the asset, as discussed in "Schedule 17 - EHV Charging Methodology (FCP Model)" of the DCUSA document

² <https://www.ofgem.gov.uk/ofgem-publications/44689/spen-derogation-extension-2012.pdf>

³ EHV refers to customers connected at the extra high voltage level of the distribution network

Information provided by SPEN

We have considered the information provided by SPEN in reaching our decision on the request to extend this derogation. We note that SPEN advised us that the issue has been raised at the Methodologies Issues Group and a change proposal was submitted to DCUSA on 12 August 2013. This DCP 189 is being discussed but there is no chance that it will be implemented before the 31 March 2014.

The Authority's decision

We have considered SPEN's request in accordance with our principal objective and statutory duties in light of the information provided by SPEN. We have considered, in particular, the principle underpinning the derogation request and those factors set out in the Guidance Note "Derogation from codes and standards in electricity generation, supply, and distribution and transmission licenses". We have decided to grant derogation from the way SUA charges are levied on designated EHV customers as described in paragraph 135(b) and Annex 6, paragraphs 325(b) and 337-339 of the EDCM for the following reasons:

- we agree with the principle of preventing EDCM customers from paying once through bilateral contracts and once through the EDCM for the same assets during the transition between the old and recently approved EDCM for demand (import) customers; and
- SPEN has made a change proposal to DCUSA (DCP 189) and is therefore ensuring that the principle of a common charging methodology is being preserved. This derogation is only needed because DCP 189 will not come into force until after the 31 March 2014, the point at which the current derogation expires. Whilst we would not rule out another derogation due to the fact that customers would lose out, we expect SPEN to push forwards with DCP 189 and have it implemented in time for the expiration of this derogation.

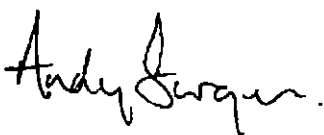
Duration of the derogation

This derogation will expire on 31 March 2015, unless amended or revoked by the Authority upon reasonable notice.

This letter constitutes a notice for the purposes of section 49A of the Electricity Act in relation to the derogation.

Please contact Iain Morgan (Iain.Morgan@ofgem.gov.uk) if you have any queries relating to the issues raised in this letter.

Yours sincerely,



Andrew Burgess
Associate Partner, Transmission and Distribution Policy
For and on behalf of the Gas and Electricity Markets Authority