



**Proposal to Implement the Statement of Methodology and
Charges for Connection to the Electricity Distribution Systems
of:**

**The Electricity Network Company Limited
and
Independent Power Networks Limited.**

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1.0 Preface

- 1.1 Under their respective Electricity Distribution Licences, ENC and IPNL are required to publish a methodology to enable a customer to calculate the charges for which they would be liable for provision of a connection to our network. The licence requires such methodology to be approved by the Authority. Standard Licence condition, 13.1(b) states:

"The licensee must at all times have in force:

...(b) a Connection Charging Methodology (which if the licensee is a Distribution Services Provider, must include the Common Connection Charging Methodology ("the CCCM") as set out in the Distribution Connection and Use of System Agreement ("the DCUSA") and as amended in accordance with the DCUSA) approved by the authority in the basis that it achieves the Relevant Objectives..."

- 1.2 The Relevant Objectives to which the licence refers are:

- "(a) that compliance with the methodology facilitates the discharge by the licensee of the obligations imposed on it under the Act and by this 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 reasonably practicable (taking account of implementation costs), the costs incurred by the Distribution Business;*
- (d) that, so far as is consistent with subparagraphs (a), (b) and (c), the methodology, as far as reasonably practicable, properly takes account of developments in the licensee's Distribution Business; and*
- (e) compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators."*

- 1.3 The requirement for a licensee to have a methodology in place only applies in respect of connections to the licensee's distribution system. Networks that are provided by the licensee but connect to the distribution systems owned and operated by other licensed distributors are out of scope. The scope of the proposed Connection Charging Methodology only covers connection charges that we will apply where we make connections to the existing distribution systems of our licensees.

2.0 Introduction

- 2.1 This document comprises the proposal for the Connection Charging Methodology for the Electricity Network Company Limited ENC and Independent Power Networks Limited (IPNL). ENC and IPNL are holders of a licence issued by Ofgem under the Electricity Act 1989 to operate electricity distribution networks. Any reference in this proposal to "us", "we", or "our" refers to both the Electricity Network Company Limited and Independent Power Networks Limited.
- 2.2 Our electricity distribution licence requires us to have a Connection Charging Methodology in place and for such methodology to be approved by the Authority.
- 2.3 In accordance with Condition 13, paragraph 13.4(a) of our Distribution Licence, we are seeking the approval of the Authority for our Connection Charging Methodology and, in accordance with Condition 14.1, the form of our Connection Charging Statement.
- 2.4 This proposal sets out:
 - a) the terms proposed for our Connection Charging Methodology;
 - b) how our Connection Charging methodology achieves the Relevant Objectives;
 - c) where, and why, our charging methodology differs from the Common Connection Charging Methodology; and
 - d) the date with effect which the modification (if made) is to take effect.
- 2.5 Our Connection Charging Methodology is contained within Section 4 of the attached document. Our statement of charges is contained within Section 6.

3.0 Proposed Connection Charging Methodology

- 3.1 Whilst the Connection Charging Methodology largely replicates the Common Connection Charging Methodology contained within Schedule 22 of the DCUSA there are some differences. Key areas of difference to our Connection Charging Methodology and the Common Connection Charging Methodology are outlined in Annex 1.
- 3.2 There are elements in our Connection Charging Methodology that do not form part of the Common Connection Charging Methodology. These are largely drawn from existing industry practice and have been included in our Connection Charging Methodology to ensure it better meets the Relevant Objectives. The paragraphs within our Connection Charging Methodology that do not fall within the purview of the CCCM are:
 - Capitalised Operation and Maintenance
 - Projects
 - Reservation of Import Capacity
 - Non Standard Substation Buildings

- Charges for assessment and design where permitted under legislation
- Costs for Works on other Distribution Systems (e.g. Reinforcement)

4.0 Assessment against the Relevant Objectives

4.1 The CCCM contained in DCUSA and with each DNO's specific charging methodology (which incorporates the CCCM) has been approved by the Authority as meeting the Relevant Objectives set out in the Licence. Therefore to the extent that our methodology replicates the CCCM and the specific methodologies of DNO we believe our methodology equally meets the Relevant Objectives of Connection Charging Methodologies.

Areas of our methodology that differ from the CCCM are contained in Annex 1 along with our justification for deviating from the CCCM.

4.2 We believe our Connection Charging Methodology better meets the Relevant Objectives for the following reasons:

- We are required to have in place, according to our licence, an approved and published charging methodology. Currently we do not have a methodology in place that has been approved by the Authority. By having an approved methodology and charging statement in place we are meeting Relevant Objective (a) of the licence.
- Our methodology differs slightly from those of Distribution Services Providers. This reflects our position as an IDNO where we provide networks that connect to the networks of other distributors. We believe that this ensures that our methodology is cost reflective and clear to the customer which enables customers to better evaluate the costs for which they would be liable. This ensures that our methodology better meets Relevant Objective (c).
- We have not included any sections or drafting that would serve to restrict or distort competition in the provision of connections. We believe that our methodology, through this, meets Relevant Objective (b).

4.3 We have provided a detailed breakdown on each of the sections which are specific to our Connection Charging Methodology in Annex 2 of this proposal and explain how each of these additions helps our methodology better meet the Relevant Objectives.

5.0 Timetable for the Implementation of our Proposed Connection Charging Methodology

5.1 Although we are currently awaiting Authority approval of our Connection Charging Methodology we are, in practice, currently adhering to the principles of this methodology and any applications for a connection to our Distribution System are treated in accordance with this methodology.

Annex 1 – Table of differences between our Connection Charging Methodology and the Common Connection Charging Methodology.

Paragraph reference (GTC Methodology)	Difference between the CCCM and our Connection Charging Methodology.	Justification for difference (with reference to the Relevant Objectives).
Costs - 4.10 (NRSWA noticing)	We have included reference to costs associated with NRSWA noticing. These are not specifically referenced in the CCCM.	We believe that this is a cost which will frequently be included in Connection Offers and therefore have included it explicitly to provide customers visibility of it. This better facilitates Relevant Objective (c).
Costs - 4.10 (Overhead lines)	We have removed references to costs associated with surveys for overhead lines.	We do not currently own or operate any overhead lines so this reference has been removed in order to make the methodology more accurate for the customer and this change better facilitates Relevant Objective (d)
Costs to be paid in full by you - 4.19 (Reinforcement of other networks)	We have made specific reference to costs for reinforcement charged to us by other LDNOs for reinforcement of their network. We will charge these costs in full; i.e. they will be treated as a pass through	Our networks connect to the networks of other licensed distributors. Where DNOs have to reinforce their network to facilitate connections or increased load on our network they may make a charge. The current use of system charging methodologies make no provision for the recovery of connection costs levied by upstream distributors in respect of works on their distribution system. Our DUoS margin, determined as the difference between the DNOs all the way DUoS charge and the DNOs DUoS charge to the IDNO network boundary, only recovers costs for reinforcing our own distribution system. The upstream distributor will receive revenue that include costs for reinforcing their distribution system

Paragraph reference (GTC Methodology)	Difference between the CCCM and our Connection Charging Methodology.	Justification for difference (with reference to the Relevant Objectives).
		and so these costs will be apportioned as per the upstream network's methodology and passed on to the customer. We believe that clarification of this point within our methodology better facilitates Relevant Objective (c).
Costs to be paid in full by you - 4.20 (Reinforcement of the Transmission System)	Costs for reinforcement of the Transmission System are included in a separate, headed section of the CCCM. We have incorporated this paragraph, relating to transmission costs, into our "Costs to be paid in full by you" section.	We do not have any direct connections to the Transmission System at this time. Therefore any charges relating to transmission work will most likely be levied to us via the incumbent DNO. As such we believe it is better to include such costs in the "Costs to be paid in full by you" section rather than as a specific section. We believe this better facilitates objectives (c) and (d).
Recovered Equipment and Deferment of Asset Replacement (4.39)	We have included the de minimis value of any credit and the rules we will apply in determining the value of the credit within one section of our methodology rather than pointing to a separate paragraph.	This inclusion provides the customer with greater clarity as they do not need to move between paragraphs or sections of our methodology to understand our approach to credits for deferment of replacement and asset recovery.
Speculative Developments (4.45)	We have sought to clarify the application of speculative developments in our methodology. We have clarified that the load, scope and timing of the development will be considered, holistically in determining speculative developments on our networks.	We believe the explanation in the CCCM of what constitutes a "speculative development" is open to interpretation and subjective judgement. We believe this leads to inconsistent application across DNOs and within DNOs of this section of the CCCM. We believe that our drafting gives greater clarity to the section and therefore better facilitates objective (b).

Paragraph reference (GTC Methodology)	Difference between the CCCM and our Connection Charging Methodology.	Justification for difference (with reference to the Relevant Objectives).
Land Rights (4.62-4.63)	<p>Our methodology contains, in addition to the CCCM wording:</p> <p><i>"We require the transfer of the freehold or alternatively the grant of long leasehold of any substation site which forms part of the Contestable or Non-Contestable Works.</i></p> <p><i>We require the grant of a permanent easement (deed of grant) for any Electric Line cable that forms part of the Contestable or Non-Contestable Works which does not fall within land adopted highway."</i></p>	<p>We have been more explicit about our requirements for land rights as we believe that it better enables the customer to accurately estimate their Connection Charges and better plan their development.</p>
4.58 (Competition in Connection Charges)	<p>We are explicit in our methodology that we will not levy Competition in Connection (CIC) charges.</p>	<p>We believe that imposing CIC charges on ICPs or other distributors is a direct barrier to the development of competition in the provision of connections distribution of electricity so we choose not to levy such charges on ICPs or other distributors. As this develops competition in those areas, our wording better facilitates objective (b).</p> <p>This is an area we will keep under review with any developments to introduce A& D charges by DECC</p>
Adoption Payments (1.59)	<p>We have removed the paragraph relating to adoption payments from our methodology.</p>	<p>We do not believe that the licensing regime does or ought to extend to adoption because it is a competitive market that is not in need of economic regulation. In particular, we do not believe that the provisions relating to the charging statement and charging methodology apply to adoption payments.</p>

Annex 2 – Assessment of our specific Connection Charging Methodology sections against the Relevant Objectives.

Section contained within our Connection Charging Methodology	Justification for inclusion in our Connection Charging Methodology including assessment against the relevant objectives
Capitalised Operation and Maintenance	Charging Capitalised Operation and Maintenance to connection customers who request assets that are over and above the minimum scheme has been common in the industry for a number of years. Each of the DNO methodologies include this figure within their specific charging methodology section of the document and we believe that its inclusion is justified. We note that different DNOs use a different figure. Given that we operate across all Distribution Services Areas, we have calculated a figure that is the midpoint of the figures used by DNOs and have applied this to our methodology. We believe that this enables our methodology to be cost reflective and concise for connection customers and, therefore, facilitates Relevant Objective (c).
Projects	This section has been included because we believe that it allows us to plan the efficient construction and operation of our networks. This section forming part of our methodology means that customers are encouraged to provide us a full and detailed description of the electrical load requirements of their projects overall. In doing so we are able to manage our networks economically and efficiently. This means we are better able to discharge our obligations under the Act and our licence and therefore this section better facilitates Relevant Objective (a)
Reservation of Import Capacity	We note that other distributors may charge for reserving import capacity on their networks. When connecting customers connect to our network we may be required to increase the load at the point of connection between our distribution system the distribution system of the upstream network operator. Should this increase trigger a cost to us for reserving import capacity then this cost will be passed through to our connection customer. We believe that the inclusion of this cost as a pass through item means that our charges to connection customers reflect the costs that are incurred by

	us in providing that connect. Therefore the inclusion of this section allows us to better facilitate Relevant Objective (c)
Charges for Assessment and Design	The inclusion of this section is so that the customer will be able to better determine the level of connection charge for which they will be liable should they accept our connection offer. The intention of this paragraph is to enable us to be able to charge assessment and design fees where the customer accepts the Connection Offer. Inclusion of these charges within our methodology will allow customers to understand what is contained within their connection charge and we therefore consider inclusion to increase the cost reflectivity and transparency of our methodology. This better facilitates Relevant Objective (c). We will consider arrangements for upfront A&D fees if and when regulations are developed to permit such charges
Non-Standard Substation Buildings	Access to land which would be suitable for substation buildings is not always available so other, innovative, solutions may be required in order to facilitate a customer's connection requirements. To do this we may be required to undertake more design and inspection work on a site specific basis. This will lead to charges which may be levied in cases where the design and inspection works are more onerous than if the substation was located in a standard enclosure. It should be noted that we will not make any additional charges where an ICP has designed and installed the network compared to when we have designed and installed the network. The inclusion of this section allows customers to understand the costs that may be applicable to them and therefore better facilitates Relevant Objective (c)