

**METHODOLOGY STATEMENT DETAILING THE
BASIS OF SP DISTRIBUTION'S USE OF SYSTEM
CHARGES**

1 APRIL 2013

THIS STATEMENT IS APPROVED BY THE GAS AND ELECTRICITY MARKETS AUTHORITY

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1 INTRODUCTION

This statement describes the Use of System Charging Methodology under which authorised users will be charged for use of SP Distribution's electricity distribution system.

Words and expressions used in this statement have (unless specifically defined herein) the definitions given to them in the Electricity Act 1989 ('the Act') or SP Distribution's Distribution Licence ('the Licence') and shall be construed accordingly.

This statement has been approved by the Gas and Electricity Markets Authority (the Authority). A fee of £10 (excluding VAT) will be payable for each copy of this statement which is provided in accordance with a request. The most recent version can also be obtained from the library section of the ScottishPower website at www.ScottishPower.com.

1.1 ScottishPower Companies

ScottishPower's Infrastructure Division includes the UK wires businesses, which comprises three asset owning companies and an asset management company. This structure was introduced in October 2001 to comply with the Utilities Act 2000.

The companies within the Infrastructure Division are:

SP Transmission Ltd which owns the transmission network in south and central Scotland (132 kV and above), and the Scottish land-based part of the interconnector linking Scotland and Northern Ireland;

SP Distribution Ltd, which owns the distribution network (from 33 kV downwards) in south and central Scotland;

SP Manweb plc, whose distribution system is located in Merseyside, Cheshire and North Wales; and

SP Power Systems Ltd which manages and maintains the networks on behalf of the three asset owners.

The three asset owning companies, which hold the transmission and distribution licenses, fall within the responsibility of SP Transmission & Distribution, a business unit within the ScottishPower Infrastructure division.

1.2 Licence Obligations

SP Distribution is obliged, under Licence Condition 13, of its electricity distribution licence, to prepare a statement (the Methodology Statement) approved by the Authority setting out the methodology upon which charges will be made for the provision of Use of System. We are also obliged to review our charging methodology annually to ensure it continues to achieve the 'relevant objectives' and, where necessary make such modifications to the charging methodology that better achieve these. The 'relevant objectives' are:

- (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 this 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 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 use of system charging methodology, as far as is reasonably practicable, properly takes account of developments in the licensee's distribution business.

1.3 Price Control

SP Distribution is a licensed distribution business regulated by the Authority. The regulation is applied via the Distribution Licence and the price control mechanism. The price control period is 5 years and Ofgem prescribe the amount of revenue that SP Distribution is allowed to recover from its customer base annually and over the price control period. Use of System charges may vary year on year as SP Distribution sets its use of system charges to recover its allowed revenue.

1.4 Use of System

SP Distribution will levy use of system charges for utilisation of its network for the supply of electricity to end users and/or the transportation of electricity across its network from entry points. SP Distribution's Use of System tariffs are published in our Licence Condition 14 Use of System Charging Statement ('Charging Statement').

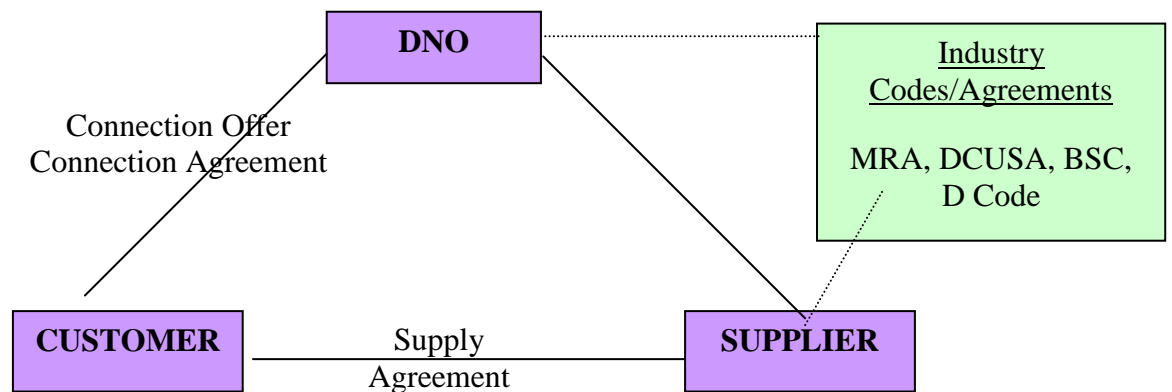
1.5 Connection and Use of System Boundary

SP Distribution splits the recovery of costs into charges for connection to the distribution network and charges for use of the network. The boundary point on the network for demarcation of these charges is identified using common rules for both demand and generation customers. This statement details the charging methodology that is applied for the calculation of use of system charges. The Charging Statement details the use of system charges that are applied, whilst the Licence Condition 14 Statement ('Connections Statement') details the connection charging methodology that is used for the calculation of connection charges. The latter statement also contains indicative charges and examples to aid understanding of connection charges. These statements can be obtained from our web-site, www.ScottishPower.com, and they are also available on request at a cost of £10 by following up the contact details on page 5.

1.6 The Contractual Framework

Users entitled to use SP Distribution’s electricity distribution system are those who are authorised by Licence or by exemption under the Act to supply, distribute or generate electricity. In order to protect all Users of the system, SP Distribution will require evidence of authorisation before agreeing terms for use of the system. NOTE: In the rest of this commentary, requirements applying to authorised Users or Authorised Electricity Operators should be taken to mean Licensed Suppliers, Licensed Embedded Electricity Distributors or Licensed Generators.

High Level Contractual Framework



Users seeking to use the system will be required, prior to using the system, to enter into an agreement with SP Distribution setting out the obligations of both parties. The party seeking use of the system will be required to:

- pay all charges due in respect of use of the system as described in this statement and the accompanying schedules;
- be a party (where the person is a Licensed Supplier) to the Master Registration Agreement (MRA) for the provision of metering point administration services within SP Distribution/SP Manweb’s authorised area;
- enter into the National Grid Company’s (NGC) Connection and Use of System Code and any necessary Bilateral Agreement, governing connections to and use of NGC’s transmission system, unless SP Distribution is informed by NGC that this is not required in any particular case;
- be a party to the Balancing and Settlements Code; and
- comply with the provisions of the Distribution Code (copies can be downloaded at www.dcode.org.uk).

If the applicant and SP Distribution fail to agree contractual terms, or any variation of contractual terms proposed by SP Distribution, either party may request settlement by the Office of Gas and Electricity Markets (OFGEM).

While the terms and conditions in the agreements will be consistent with those in this statement, the agreement will take precedence. Where a User, having entered an agreement for use of SP Distribution's electricity distribution system, ceases for whatever reason to be a User with respect to that use of the system, then the entitlement to use of the system will cease forthwith, but the User will continue to be liable under the agreement unless and until the agreement is terminated. In order to avoid any liability in this regard, a User wishing to terminate his agreement or wishing to notify a change should give SP Distribution no less than 28 days' notice. SP Distribution will normally respond within 28 days of a notification of change.

Terms and conditions for connection of premises or other electrical systems to SP Distribution's electricity distribution system are contained in the Connections Statement, which is available from SP Distribution on request. Persons seeking use of the system with respect to a new supply, must apply for connection in accordance with the terms and conditions described in that statement.

Where a person requires a connection to SP Distribution's electricity distribution system pursuant to Section 16 of the Electricity Act (as amended), the provisions of this statement are without prejudice to the provisions of sections 16 to 22 of the Electricity Act (as amended) (those sections which deal with the rights, powers and duties of SP Distribution, as an electricity distributor), in respect of the distribution of electricity to owners or occupiers of premises.

1.7 Contact Information

This statement has been prepared in accordance with SP Distribution's Licence Condition 13. If you have any questions about the contents of this statement please contact us at the address shown below. Also given below are contact details for the Office of Gas and Electricity Gas Markets should prospective users wish to enquire separately on matters relating to this statement.

For enquiries about this statement, please contact in the first instance: -

Regulation and Commercial
SP Energy Networks
Prenton Way
Birkenhead
Merseyside
CH43 3ET
Email: commercial@sppowersystems.com

Tel. No. 0151 609 2335
Fax No. 0151 609 2492

Persons seeking further information on any aspect of this document may also contact:

OFGEM
9 Millbank
London
SW1P 3GE

Tel: 0207 9017000
www.ofgem.gov.uk

2 PRINCIPLES

The following paragraphs relate to the transport of electricity on SP Distribution's system by Users of the system.

1. Where electricity is transported over electric lines or electrical plant comprising a part of SP Distribution's system, a charge for use of the system will be levied on the user. The relevant use of system charges are described in our Charging Statement and are payable by reference to the characteristics of the supply, in accordance with the categories of supply described in the Schedule. Where the Use of System Agreement is combined with a Connection Agreement and the site is registered in the CVA registration system, other parties may be responsible for Use of System charges, by agreement between the parties. The charges for each category of supply depend upon the criteria that determine eligibility for that category, including the voltage of connection to the system, the characteristics of the load, and installation of the appropriate use of system metering.
2. The charges for use of the system reflect:
 - the costs of providing, operating and maintaining the distribution system to the standards prescribed by the Act, other than those costs which are recovered through the charges paid to SP Distribution in respect of connection to the system, and
 - the costs to SP Distribution of providing certain services and performing functions for Users, on terms which SP Distribution is under a duty to offer under its Electricity Distribution Licence, in order to support the operations of a fully competitive supply market in its authorised area. These services include; Metering Point Administration Services; Energisation and De-energisation and Re-energisation services; and Radio Teleswitch Services. SP Distribution is either wholly or partly remunerated through use of system charges or through transaction charges for these services. The cost for provision of these services is detailed in our Charging Statement.

All charges for use of the system include a reasonable return on the relevant assets, and the revenues arising from the charges are subject to regulation in accordance with the terms of the Licence.

3. Charges to Users for the use of the system are evaluated as if from SP Distribution's Grid Supply Points. These charges reflect real electrical flows on the system and the need to provide adequate capacity at all voltage levels to protect the security of the system. Charges are applied to the electricity as measured at the exit or entry points, as indicated in paragraph 6 below.
4. The Users via its meter operator must ensure that the data provided by the metering meets SP Distribution's requirements for use of system billing purposes. In addition, SP Distribution reserves the right to install metering equipment for monitoring purposes; if SP Distribution exercises this right, no charge will be made for this equipment.

Charges exclude the costs of meter provision and operation. Details of metering charges are covered in a separate document, 'Statement of Basis of Charges for Use of SP Distribution's Metering Services', which is available upon request at a cost of £10.

5. Charges for use of system will normally be payable on demand, in accordance with the billing period and payment terms agreed with the party using the system. SP Distribution reserves the right to require appropriate security in respect of the charges estimated to arise, depending on the circumstances of the supply and on the basis of the agreed payment terms. Interest payment may be applied to late payments. Invoices for residential and /some]business supplies will generally be calculated according to the Supercustomer Methodology for Use of System Billing, a description of which is given in our Charging Statement.
6. Where a supply is to be provided wholly or partly over SP Distribution's electricity distribution system to an exit point from that system, the Users must demonstrate that at all times that the quantity of electricity entering the system for the purpose of providing that supply equals the metered quantity delivered from the system to that exit point plus the amount of electrical losses appropriate to the voltage at which the supply is delivered and to the source of the supply, as shown in the Schedule of Loss Adjustment Factors (Annex 5) of our Charging Statement. However, the settlements process uses additional adjustments to calculate supplier liability for purchases. Relevant metering information or membership of the Balancing and Settlement Code will be considered to meet the criteria for demonstrating that the supplier has provided adequate energy to the system.
7. Where a supply is to be provided over SP Distribution's electricity distribution system on either an intermittent or continuing basis to any premises with own generation, charges for use of the system will be levied with respect to the system capacity provided to meet the maximum power required as requested by the party seeking use of the system. Other charging components may also be applicable depending on the voltage of connection, the use of reactive power and the capacity required.
8. Where SP Distribution, after evaluation of the characteristics of the requested use of the system, accepts that none of the categories of charges in the schedules of our Charging Statement is appropriate, SP Distribution will offer special arrangements, such charges will be calculated according to the same principles as the other use of system charges. SP Distribution will normally make its offer of terms within 28 days of receiving the application, following receipt of the full and final information necessary for the preparation of the terms.
9. Where use of the system is sought at a standard of security different from that referred to in the Distribution Code, SP Distribution may consider special arrangements with respect to that supply. Where the power factor of the supply is less than 0.95, it will normally be possible for SP Distribution to offer use of system, subject to appropriate charges (see our Charging Statement). In such

cases, specially assessed loss adjustment factors may apply at SP Distribution discretion.

10. In all cases the charges for use of the system include a contribution to recovery of NGC's transmission charges. These amounts are calculated to be appropriate to each class of customers. This is on the basis that the total contribution to NGC's transmission charges paid by any class of customers is in proportion to the use of that class of customer.
11. Charges to generators for use of SP Distribution's system will be made for use of the system in respect of electricity that the generator imports from and exports to the system. The generator will be charged for use of system in respect of such imports or exports in accordance with paragraphs 1 to 10 above.

3 USE OF SYSTEM METHODOLOGIES

The Use of System Methodology is split into three parts:

Part 1

The “Common Distribution Charging Methodology (CDCM)” refers to the methodology for determining charges for HV and LV connected users. This methodology is applicable from 1 April 2010. Charges for HV and LV connected demand, generation and embedded networks are set in accordance with the new common distribution charging methodology. This methodology can be found in the DCUSA schedule 16, and is subject to governance arrangements set out in the DCUSA.

Part 2

The “Extra High Voltage Distribution Charging Methodology” (EDCM) refers to the methodology for determining charges for EHV designated customers. For import charges this methodology was approved by the Authority in September 2011 and implemented in April 2012. This methodology can be found in schedule 17 of DCUSA, and is subject to open governance arrangements.

The EDCM for export charges was approved by the Authority in November 2012 and will be incorporated into DCUSA, schedule 17, prior to its implementation in April 2013.

The EDCM is available for download from the ENA using the following address:

<http://www.energynetworks.org/electricity/regulation/structure-of-charges-edcm/structure-of-charges-edcm.html>

The latest version of the DCUSA document can be found at

www.dcusa.co.uk

Export charges for EHV designated Customers connected prior to April 1st 2005

Designated EHV export customers with energisation / connection agreements dated pre April 2005 (including those quoted before April 2005 under the deep connection charge methodology) will not be charged UoS charges until:

- (a) 25 years following energisation/connection. After 25 years, designated EHV export customers will be charged UoS charges from the next 1st April following the 25 years.
- (b) Designated EHV export customers who have not been connected for 25 years decide to opt into UoS EDCM export charges. If a designated EHV export customer decides to opt in there will be no opportunity in the future to opt out.

Any additional export capacity connected post-1st April 2005 by an existing pre-1st April 2005 designated EHV export customer will be charged on the same basis as post-1st April 2005 designated EHV export customers.

4. NETWORK UNAVAILABILITY REBATES, FOR EHV GENERATORS

By prior agreement with Generators connected after 1st April 2005, SP Distribution will rebate generators for network unavailability where a physical break in the distribution system prevents the generator from exporting power.

The precise arrangements applying to unavailability rebates will be the subject of bilateral discussion between SP Distribution and the generator and will be included in the generator's connection agreement. A rebate of zero will normally be applicable where the generator has requested an 'unfirm' connection to the distribution system.

The duration of any network interruption will exclude:

- 50 per cent of the duration of interruptions due to pre-arranged outages for which statutory notifications have been issued.
- cases that are exempted events in the quality of service incentive.

Rebates will be paid annually covering the period 1 April to 31st March. Rebates will not exceed the annual use of system charges for the generator.

A de-minimis level of rebate will also apply.

5 CAPITALISED CONNECTIONS CHARGES

Within SPM there are some legacy arrangements for EHV customers who entered into a contract to pay elements of their connection charge over a period rather than as a one off payment. These charges will be in addition to use of system charges but will also be recovered via the use of system billing mechanism. This comprises of:-

1. a depreciation charge calculated on a straight-line basis from the Gross Asset Value of the sole use assets, a nominal life of 40 years; and
2. a return charge calculated from the depreciated value of the asset and the cost of capital.

6. CAPACITY RAMPING FOR EMBEDDED LDNOS

Where connection is made to an embedded distribution network operated by another licensed distribution operator, demand at the boundary may grow over an extended period of time, prior to that network being fully developed. In these circumstances, the chargeable import capacity (where applicable) will be allowed to grow over time, in line with demand, up to the requested capacity as agreed in the relevant connection terms.

7. USE OF SYSTEM CHARGES

7.1 Where our Use of System Charges are published

SP Distribution's Use of System tariffs are published in our Licence Condition 14 Statement. This can be obtained from our web site, www.scottishpower.com, or available on request at a cost of £10 by following up the contact details in section 1.7.

GLOSSARY

The following definitions are intended to assist the reader’s understanding of this document.

“Act”	The Electricity Act 1989 as amended by the Utilities Act 2000.
“Authority”	The Gas and Electricity Markets Authority as established by the Utilities Act.
“BSC”	Balancing and Settlements Code – wholesale electricity trading arrangements introduced in England and Wales 2001 are designed to provide greater competition, while maintaining a secure and reliable electricity system.
“Connection Charging Methodology”	The principles on which and the methods by which, for the purposes of achieving the objectives referred to in standard condition 13 (Connection Charging Methodology Statement), connection charges are determined.
“CUSC”	Means the Connection and Use of System Code governing connection to and use of NGC’s transmission system.
“CVA”	Central Volume Allocation.
“De-energisation”	Means the movement of any switch, the removal of any fuse, or the taking of any other step to deliberately prevent the flow of electricity from the Distribution System to the connection.
“Distribution Code”	The Distribution Code, the document produced by each Distributor in accordance with Condition 9 of its Licence and approved by Ofgem to define the technical aspects and planning criteria of the working relationship between the Distributor and all those connected to its Distribution System.
“Distribution Licence”	Refers to the Electricity Distribution Licence.
“Distribution System”	The whole of our interconnected distribution equipment, including such items as; cables, overhead lines and substations, which we operate in accordance with our Licence.
“Electricity Distribution	The Electricity Distribution Licence granted to SP Manweb /SP Distribution pursuant to section 6(1)(c) of the Act.

Licence”	
“Exit Point”	A point of connection at which a supply of electricity may flow between the Distribution System and the Customer’s Installation or User’s Installation or the Distribution System of another person.
“Export Capacity”	Means the export of a supply of electricity into the Distribution System through the point of connection and is measured in kilo volt-amperes.
“Extra High Voltage (EHV)”	An EHV premise is defined as a site connected to the distribution system at a voltage of higher than 22kV or at a substation with a primary voltage of 66kV or above.
“EHV Designated Customers”	Customers connected to the distribution system at voltages of 22kV and above or those connected to the distribution system at the HV busbars of a primary substation whose primary voltage is 22kV and above.
“Grid Supply Points (GSPs)”	The points on our system where supply is taken from from NGC. Usually at a 400/132kV, a 275/132kV or a 400/275/66kV substation.
“High Voltage (HV)”	Means a voltage between 1,000 volts and 22,000 volts. In the case of our Distribution System, this means 6,600 volts or 11,000 volts plus or minus 6% measured between any two phase conductors.
Legacy DUoS methodology	Means the DUoS methodology in place prior to April 2010, and currently used only for EHV customers
“Licence”	Refers to the Electricity Distribution Licence unless otherwise stated.
“Low Voltage (LV)”	230 volts plus 10% or minus 6% measured between the neutral conductor and any phase conductor, or 400 volts plus 10% or minus 6% measured between any two phase conductors.
“Master Registration Agreement (MRA)”	Means the agreement of that name dated 1 June 1998.
“Metering Point”	The point, determined according to the principles and guidance given at Schedule 9 of the Master Registration Agreement, as which a supply to (export) or from (import) a Distribution System: (a) is or is intended to be measured; or (b) where metering equipment has been removed, was or was intended to be measured; or

	<p>(c) in the case of an Unmetered Supply under the Unmetered Supplies Procedure, is deemed to be measured, where in each case such measurement is for the purposes of ascertaining the supplier's settlement liabilities under either the Settlement Agreement or the Balancing and Settlement Code.</p>
“NGC”	National Grid Company – own and operate the high voltage electricity transmission network.
“Ofgem”	Ofgem is the Office of ‘Gas and Electricity Markets, regulating gas and electricity industries in Great Britain. Ofgem operate under the governance of the Authority, which sets all major decisions and policy priorities.
“Use of System Charges”	Charges made or levied, or to be made or levied, by the licensee for the provision of services as part of the distribution business to any person, as more fully described in standard condition 4 (Use of System Charging Methodology) and 4A (Charges for Use of System), but does not include connection charges.
“Use of System Charging Methodology”	The principles on which and the methods by which, for the purposes of achieving the objectives referred to in standard condition 13 (Use of System Charging Methodology), Use of System Charges are determined.
“Users”	Persons entitled to apply for Use of System.

Appendix 1. Statement of Loss Adjustment Factor Methodology for SP Distribution Ltd.'s Electricity Distribution Network

The Statement for Loss Adjustment Factor has been removed from this Methodology Statement and is now a stand-alone document which can be found at http://www.elexon.co.uk/documents/market_data/market_data_-_static_data_-_what_is_a_line_loss_factor/scottish_power_energy_networks.pdf