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The Company Secretary
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cc: Simon Brooke (by email only)

22 April 2005

Dear Sir/Madam,

Use of system charging methodology: conditional approval

On 11 February 2005 the Authority issued its decision to conditionally approve United Utilities' (UU) use of system (UoS) charging methodology in accordance with Standard licence condition (SLC) 4(9), subject to the following condition:

- a. Review of the policy on the transition of demand EHV charges to a new methodology by 1 April 2005 to set out the strategy (if any) for:
 - i. the transition of EHV charges effective from 1 April 2005 in the methodology (by 1 April 2005); and
 - ii. the transition (if any) for EHV charges effective from 1 April 2006 (by October 2005).

The decision document also stated that the Authority approved UU's Connection charging methodology in accordance with SLC4B(19), subject to the following condition:

- b. Connections in regeneration areas subject to second comer charging for reinforcement assets for the prescribed period after connection as required by the Electricity Act 1989, as subsequently amended, and the Electricity (Connection Charge) Regulations.

UoS

UU action – The condition (a) above was imposed on UU in light of the fact that the transition strategy for EHV charges (a restriction of RPI plus 5 percent) proposed in early drafts of the methodology had been removed. UU submitted a redrafted UoS methodology statement on 18 April 2005, amended to say that charge increases will be capped at 15 percent from 1 April 2005 (unless capacity requirements have changed), and decreases will be applied in full.

Authority conclusion

Ofgem consulted on the issue of EHV transitions in December 2004¹, and subsequently reached a decision on this matter (published on 11 February 2005²). In light of this decision and the reasons set out in the decision document, the Authority considers UU's transition strategy for April 2005 to be appropriate, and approves this redrafted section of the methodology as meeting part (i) of condition (a) above.

Connection

UU action – UU submitted a redrafted connections methodology statement on 18 April 2005. This states that the costs of infrastructure assets installed following a first connecting party within a development area will be subject to reapportionment for subsequent comers for up to five years after commissioning.

Authority conclusion

The Authority considers that the policy on development areas detailed in the methodology is now clearer meeting this condition and can now approve the methodology statement. It should be noted that it is for UU to ensure that their methods and practice in charging parties is at all times in accordance with legislation.

Outstanding conditions

The Authority notes that part (ii) of condition (a) requires UU to set out a strategy for 2006 EHV charges by October 2005, and this part of the condition stands, pending further action by UU and further consideration of this issue by Ofgem and the industry.

The Authority expects UU to provide Ofgem with updates on progress in meeting this outstanding condition in advance of October. Any queries about this decision or the completion of the outstanding conditions should be directed to Mark Cox on 020 7901 7458, mark.cox@ofgem.gov.uk.

Yours sincerely,

Martin Crouch
Director, Distribution

¹ Open letter consultation (284/04) available from <http://www.ofgem.gov.uk/ofgem/work/index.jsp?section=/areasofwork/distributioncharges>.

² Decision document and responses (35/05) available from <http://www.ofgem.gov.uk/ofgem/work/index.jsp?section=/areasofwork/distributioncharges>