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The Company Secretary
SP Manweb Plc
3 Prenton Way
Prenton
CH43 3ET

cc: Tony McEntee (by email only)

Your Ref: COM-05-005
Our Ref: RBA/DPC/SOC/
Direct Dial: 020 7901 7255

02 December 2005

Dear Colleague,

**Decision in relation to Modification Proposal to the Connection Charging Methodology:
Clarification of approach in the application of the reinforcement apportionment rules**

On 7 November 2005, ScottishPower Plc submitted a proposal on behalf of SP Manweb Plc ('SPM') to the Gas and Electricity Markets Authority (the 'Authority')¹ a proposal to modify SPM's connection charging methodology.

The proposal modifies the connection charging methodology statement to clarify the approach used by SPM in the application of the reinforcement apportionment rules.

Having carefully considered the issues raised in the proposal, the Authority has decided not to veto the proposed modification.

This letter sets out the background to the modification proposal, explains briefly the proposed changes, and sets out the reasons for the Authority's decision.

Background

SPM has licence obligations² to have in place as of 1 April 2005 three charging statements: the statement of UoS methodology, the statement of use of system charges and the connection charging methodology. The connection charging statement outlines the method by which connection charges to the distribution system are calculated. SPM has a requirement to keep the methodology under review and bring forward proposals to modify the methodology that it considers better achieves the relevant objectives³.

¹ Ofgem is the office of the Authority. The terms 'Ofgem' and the 'Authority' are used interchangeably in this letter.

² Standard Licence Conditions 4-4B

³ The relevant objectives for the connection charging methodology, as contained in paragraph 3 of standard licence condition 4B of SPM's distribution licence are:

SPM Modification Proposal

SPM proposes to clarify the connection charging statement in the following way:

- To revise the description of how they apportion the costs associated with the reinforcement of existing distribution network assets.

The costs associated with the reinforcement of existing distribution network assets (which for this purpose mean works required by the new connection, but not for its sole use) up to one voltage level above, will be split with a share attributed to the connecting party based on their capacity requirements as part of their connection charge and the remainder recovered through use of system tariffs. These rules apply to both demand and generation connections and apply to all distribution voltages and EHV.

The Authority's decision

The proposals are not changes to the underlying methodology but rather a change to the way the charging methodology is described in the statement. The change to the statement requires approval from the Authority in line with SLC4.

The Authority has considered the proposal against the relevant objectives and wider statutory duties. The change to the connection charging methodology statement improves the clarity of the statement and provides greater detail to parties on the application of the reinforcement apportionment rules. This change better achieves the relevant objectives by allowing SPM to better discharge its duties under the licence. By allowing parties to better understand the charging methodology this may further facilitate competition in electricity connections.

The Authority has decided not to veto this modification.

Please contact Mark Cox on 0207 901 7458 or Laura Nell on 0207 901 7201 if you have any queries in relation to the issues raised in this letter.

Yours sincerely,



Martin Crouch
Director, Distribution

Signed on behalf of the Authority and authorised for that purpose by the Authority

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- (a) that compliance with the connection charging methodology facilitates the discharge by the licensee of the obligations imposed on it under the Electricity Act 1989 and by this licence;
 - (b) that compliance with the connection charging methodology facilitates competition in 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 connection 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 connection charging methodology, as far as reasonably practicable, properly takes account of developments in the licensee's distribution business.