



The Company Secretary
SP Distribution Ltd
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Bringing choice and value
to customers

Your Ref: COM-05-009
Our Ref: RBA/DPC/SOC/
Direct Dial: 020 7901 7255

05 December 2005

cc: Tony McEntee (by email only)

Dear Colleague,

Decision in relation to Modification Proposal COM-05-009 to the Connection Charging Methodology: Transmission System Associated Works

On 8 November 2005, ScottishPower Plc submitted a proposal on behalf of SP Distribution Ltd ('SPD') to the Gas and Electricity Markets Authority (the 'Authority')¹ to modify SPD's connection charging methodology.

The proposal modifies the connection charging methodology statement to reflect any transmission costs and liabilities triggered by the connectee and levied on SPD by the GB System Operator in the customer's Connection Offer.

Having carefully considered the issues raised in the proposal, the Authority has decided 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

SPD has licence obligations² to have in place as of 1 April 2005 three charging statements: the statement of use of system (UoS) methodology, the statement of UoS charges and the connection charging methodology statement. The connection charging methodology statement outlines the method by which connection charges to the distribution system are calculated. SPD 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 (SLC) 4-4B

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

SPD Modification Proposal

SPD proposes to clarify the connection charging statement by inserting a paragraph:

- To allow SPD to reflect any transmission costs and liabilities levied on SPD by the GB System Operator in the customer's Connection Offer, even where these are not known at the time the Connection Offer was made (in which case SPD reserves the right to update Connection Offer).

The proposed new wording sets out that:

- SPD shall be entitled to reflect any costs and / or liabilities triggered by the customer's connection works;
- These costs and / or liabilities shall be reflected in the Connection Offer;
- Where these costs and / or liabilities are not known to SPD at the time of making the offer, the Connection Offer shall be made subject to SPD's right to amend the offer to reflect any associated transmission system costs once they are known.

The Authority's decision

The proposed change to the statement requires approval from the Authority in line with SLC4B.

The Authority has considered the proposal against the relevant objectives and wider statutory duties.

The change to the connection charging methodology statement provides greater visibility to parties in setting out additional costs or liabilities they may incur.

However

- The wording of the proposed modification does not provide clarity or transparency as to what the liabilities or costs relate to, or the method by which such costs and liabilities would be calculated and levied on potential distribution connectees;
- It is likely that liabilities would be negotiated as part of the Connection Offer and as such are primarily a contractual issue.
- It is unclear how this relates to the UoS methodology where transmission exit charges are already passed through to users' DUoS charges. It is unclear whether such costs would form part of the connection charge.

In light of the issues set out above the Authority has decided to veto this modification.

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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.

Please contact Mark Cox on 0207 901 7458 or Colette Schrier on 0207 901 7239 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