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

Your Ref: COM-05-003
Our Ref: RBA/DPC/SOC/
Direct Dial: 020 7901 7255

cc: Tony McEntee (by email only)

05 December 2005

Dear Colleague,

Decision in relation to Modification Proposal COM-05-003 to the Connection Charging Methodology: Charges for providing a generator

On 8 November 2005, ScottishPower Plc submitted a proposal, reference COM-05-003, on behalf of SP Manweb plc ('SPM') to the Gas and Electricity Markets Authority (the 'Authority')¹ to modify SPM's connection charging methodology.

The proposal modifies the connection charging methodology statement by allowing SPM to charge to the connectee the cost of providing a generator which is required during connection works to provide network support, where this is of benefit to the connectee.

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

SPM has licence obligations² to have in place as of 1 April 2005 three charging statements: the statement of use of system methodology, the statement of use of system 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. 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 (SLC) 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 methodology statement by inserting a paragraph:

- To allow SPM to reflect in the connection charge the cost of providing a generator where this is of direct benefit to the customer requiring connection, and additionally where the generator is provided at the customer's own request.

The proposed new wording sets out that:

- Where a generator is required to provide temporary network support the cost of providing the generator will be reflected in the connection charge providing this is of direct benefit to the customer requiring connection
- All costs incurred in the provision of a generator at the customer's request will be recovered as part of the connection charge
- Typical costs for the provision of a generator would be £1,200 to £2,000 per day, for a 500 kVA generator.

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 proposed change to the connection charging methodology statement

- Would enable SPM to provide a generator even where the customer has not directly requested it and it is not clear the criteria that would be applied to the decision concerning whether the provision of a generator would constitute a 'direct benefit' to the customer. It is likely that the customer may be better placed to know whether the provision of a generator would be of benefit;
- It is not clear whether the customer would be charged for paying to support connections in addition to his own;
- The costs of providing temporary supplies are already provided for in the charging methodology, which states that the full cost of the work to be done by SPM for the purposes of making this connection will be charged to the connectee.

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,

A handwritten signature in black ink, appearing to read 'M. Crouch', written in a cursive style.

Martin Crouch

Director, Distribution

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