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The Company Secretary
United Utilities Electricity plc
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Cheshire
WA5 3LW

Your Ref: UU/005
Our Ref: RBA/DPC/SOC
Direct Dial: 020 7901 7255

cc: Simon Brooke (by email only)

28 February 2006

Dear Colleague,

Decision in relation to Modification Proposal UU/005 to the Connection Charging Methodology Statement: Housekeeping changes

On 1 February 2006, United Utilities (UU) plc submitted a proposal, reference UU/005 to the Gas and Electricity Markets Authority (the 'Authority')¹ to modify UU's connection charging methodology statement.

The proposal modifies the connection charging methodology statement for various changes identified as part of a review of the connection charging methodology. The changes are designed to clarify and update UU's methodology statement.

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

UU has licence obligations² to have in place as of 1 April 2005 three charging statements: the UoS charging methodology statement, the statement of UoS charges and the connection charging methodology statement. The connection charging methodology statement outlines the method by which distribution connection charges are determined. UU has a requirement to

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

keep the methodology under review and bring forward proposals to modify the methodology that it considers better achieves the relevant objectives³.

UU Modification Proposal

UU proposes to clarify its connection charging methodology statement in the following ways:

- General formatting and updating to achieve consistency in spacing, to correct typos and to update information (e.g. updating of the website address and changing 'NGC' to 'NGET' throughout the connection charging methodology statement);
- Clarifying the treatment of providing unconditional connection offers if a new connection requires confirmation from National Grid Electricity Transmission;
- Removing reference to incorrect wording on the application of design and monitoring charges in contestable charges for statutory connection works;
- Revising the threshold level at which capacity charges are incurred following reinforcement of the distribution networks from 100kVA to 20kVA in order to remove artificial restrictions introduced in April 2005;
- Incorporating worked examples to illustrate how the connection and reinforcement methodology is applied in practice; and
- Including new schedules of charges for the use of mobile generation and planned interruption notices.

UU states that the changes form the annual review of UU's connection charging methodology in order to achieve consistency, clarity, and to ensure the document is up to date.

The modification proposal report submitted by UU can be found on the Ofgem website as an attachment to this document.

The Authority's decision

The changes to the connection charging methodology require approval from the Authority in line with SLC4B. The Authority has considered the proposal against the relevant objectives and its wider statutory duties.

The changes proposed by UU in this modification cover a wide range of issues and the Authority has considered each one in turn. Most of the changes add clarity and improve the statement but there are a number of changes which are more substantive policy issues and these are considered below.

The proposed modification includes a change covering the impact of transmission works. This change deals both with the potential impact that assessment of these works will have on

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

- (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.

timescales that UU have in making an unconditional offer to a generator and also costs that may be incurred due to the impact of the generator on the transmission system. It is useful to make potential generator connectees aware of these issues so that they are better informed of potential impacts on their costs and timescales. However:

- UU proposes to 'delay to offer terms of agreement'; this proposed change does not appear consistent with the licensee's duties through licence condition 4D Para 5 and 6. This sets out specific timescales that the Licensee must comply with.
- UU proposes to pass on any specific costs associated with works on the transmission system due to the connection of the generator that UU may incur from National Grid Electricity Transmission. The wording of the proposed modification does not provide clarity or transparency as to what the costs might relate to, or to the method by which such costs would be calculated and levied on potential distribution connected generators. It is also unclear how this element relates to the Use of System (UoS) methodology where transmission exit charges are already passed through to users' via UoS charges. It is unclear whether such charges would form part of the connection charge.

Also the proposed modification includes new schedules of charges for the provision of mobile generation and planned interruption notices charged to parties when they are connecting to the network.

- There appears to be no reference in the main body of the connection charging methodology statement to explain when these charges would be levied on connecting parties. In addition, the charges appear to be general costs of running the licensee's business and it may not be appropriate separately to identify and charge them to connectees.

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

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