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The Company Secretary  
United Utilities Electricity plc  
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Great Sankey  
Warrington  
Cheshire  
WA5 3LW

Your Ref: UU/005.1  
Our Ref: RBA/DPC/SOC  
Direct Dial: 020 7901 7255

cc: Simon Brooke (by email only)

15 March 2006

Dear Sir / Madam,

**Decision in relation to Modification Proposal UU/005.1 to the Connection Charging Methodology: Housekeeping changes**

On 3 March 2006, United Utilities (UU) plc submitted a proposal, reference UU/005.1 to the Gas and Electricity Markets Authority (the 'Authority')<sup>1</sup> 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. This modification proposal follows our decision letter, dated 28 February 2006<sup>2</sup>, which vetoed modification proposal UU/005 concerning housekeeping changes.

Having carefully considered issues raised in the proposal, the Authority has decided not 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 obligations<sup>3</sup> 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.

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

<sup>2</sup> United Utilities: decision in relation to modification proposal UU/005 to the Connection Charging Methodology: General housekeeping changes

<sup>3</sup> Standard Licence Conditions (SLC) 4-4B

UU has a requirement to keep the methodology under review and bring forward proposals to modify the methodology that it considers better achieve the relevant objectives<sup>4</sup>.

#### *UU Modification Proposal UU/005.1*

Ofgem vetoed modification proposal UU/005 due to concerns over UU's proposed wording covering the timing and potential cost implications of transmission works as well as the inclusion of a schedule of charges for mobile generation. The revised modification UU/005.1 does not propose to modify these areas of the connection charging methodology statement.

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

- General formatting and updating to achieve consistency in spacing, to correct typographical errors and to update information (e.g. updating of the website address throughout the connection charging methodology statement);
- 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;
- Incorporated worked examples to illustrate how the connection and reinforcement methodology is applied in practice.

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<sup>5</sup>. The Authority has considered the proposal against the relevant objectives and the Authority's wider statutory duties.

The changes to the methodology appear to improve clarity and appropriately update it. The update to the section on how connection and reinforcement charges are calculated

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<sup>4</sup> The relevant objectives for the connection 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.

<sup>5</sup> Indicative charges are not subject to Authority approval, as set out in paragraph 6(b) of standard licence condition 4B of UU's distribution licence.

provides a more concise methodology with worked examples that are appropriate and clear.

The proposed changes improve the clarity of the methodology and better achieve the relevant objectives. The Authority has decided not 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 faithfully,

A handwritten signature in black ink, appearing to read 'M. Crouch', with a long horizontal flourish extending to the right.

**Martin Crouch**  
**Director, Distribution**

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