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Company Secretary
Scottish HydroElectric Power Distribution Ltd
Grampian House
200 Dunkeld Road
Perth
PH1 3AQ
United Kingdom

Your Ref: SHEPD/006/001
Our Ref: RBA/DPC/SOC
Direct Dial: 020 7901 7255

cc: Aileen Boyd (by email only)

23 March 2006

Dear Sir / Madam,

Decision in relation to Modification Proposal SHEPD/06/001 to the Connection Charging Methodology: Housekeeping Changes

On 17 March 2006, Scottish and Southern Energy plc submitted a proposal, reference SHEPD/06/001, on behalf of Scottish Hydro-Electric Power Distribution Ltd Distribution plc ('SHEPD') to the Gas and Electricity Markets Authority (the 'Authority')¹ to modify SHEPD's connection charging methodology statement.

The proposal modifies the connection charging methodology statement for four housekeeping changes to clarify the approach used by SHEPD.

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

SHEPD has licence obligations² to have in place as of 1 April 2005 three charging statements: the use of system charging methodology statement, the statement of use of system charges and the connection charging methodology statement. The connection charging methodology statement outlines the method by which distribution connection charges are calculated. SHEPD 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 SHEPD'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;

SHEPD Modification Proposal

SHEPD proposes to clarify its connection charging methodology statement by:

- Correcting typographical and numbering errors;
- Clarifying references to live jointing to reflect that live jointing is now contestable, except for the final connection to the distribution network;
- Removing some text under the heading "transitional arrangements";
- Re-formatting and updating of details in the contacts section.

SHEPD states that the changes provide greater clarity in charging arrangements and reflect developments in their business in terms of competition in connections, organisational structure, and the removal of the need to comment on transitional arrangements for connections quotations provided around 1 April 2005.

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

The Authority's decision

Changes to the charging methodology require approval from the Authority in line with SLC4B.

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

The correction of typographical and numerical errors improves the clarity of the methodology statement. The other amendments take account of developments in SHEPD's business.

The proposed changes improve the clarity of the connections charging methodology and better meet 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,



Martin Crouch
Director, Distribution
Signed on behalf of the Authority and authorised for that purpose by the Authority

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- (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.