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The Company Secretary  
Western Power Distribution  
Avonbank  
Feeder Road  
Bristol  
BS2 0TB

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

cc: Tim Hughes (by email only)

21 August 2006

Dear Colleague,

**Decision in relation to Modification Proposal to the Connections Charging Methodology: Housekeeping Change to Contestability Status for Design of New Connections**

On 2 August 2006, Western Power Distribution (WPD) submitted to the Gas and Electricity Markets Authority (the 'Authority')<sup>1</sup> a proposal to modify their connection charging methodology for its South West and South Wales areas.

The proposal modifies the connection charging methodology statement to clarify WPD's approach to competition in connections in particular to reflect the extension of competition from Greenfield sites only to including Brownfield and Industrial / Commercial sites.

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*

WPD has licence obligations<sup>2</sup> to have in place as of 1 April 2005 three charging statements: the statement of UoS methodology, the statement of use of system charges and the connection charging methodology. The connection charging methodology outlines the method by which connection charges are calculated. WPD has a requirement to keep the methodology under review and bring forward proposals to modify the methodology that it considers better facilitate achievement the relevant objectives<sup>3</sup>.

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<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> Standard Licence Conditions 4-4B

<sup>3</sup> The relevant objectives for the use of system charging methodology, as contained in paragraph 3 of standard licence condition 4 of WPD's distribution licence are:

### *WPD Modification Proposal*

WPD proposes to clarify the connection charging methodology statement for both licensees (South Wales and South West) in the following way:

- Remove the reference to design being a non-contestable activity unless relating to a Greenfield site.

In November 2004 Ofgem issued a decision document<sup>4</sup> further facilitating competition in connections by extending contestability from applying only Greenfield sites to including Brownfield and Industrial / Commercial sites. By extending competition into these areas, the reference to competition only being contestable for Greenfield sites has become redundant and therefore should be removed.

### *The Authority's decision*

The proposals are not changes to the underlying methodology but rather a change to the way the charging methodology is described in the statement. The change to the charging statement requires approval from the Authority in line with SLC4.

The Authority has considered the proposal against the relevant objectives and wider statutory duties. The change to the connection charging methodology statement improves the clarity of the statement and provides greater detail to parties on the scope of competition in connections. This change better facilitates achievement of the relevant objectives by allowing WPD to better discharge its duties under the licence. By allowing parties to better understand the charging methodology this may further facilitate competition in electricity connections.

The Authority has decided not to veto this modification.

Please contact Laura Nell on 020 7901 7201 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

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- (a) that compliance with the use of system 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 use of system 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 use of system 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 use of system charging methodology, as far as reasonably practicable, properly takes account of developments in the licensee's distribution business.

<sup>4</sup> "Competition in connections to electricity distribution systems, Decision Document – Part A" November 2004 252/04.