

Company Secretary
EDF Energy Networks (SPN) Plc
40 Grosvenor Place
London
SW1X 7EN

*Promoting choice and
value for all customers*

cc: Gemma Cox
Paul Measday (by email only)

Your Ref: NA
Our Ref: RBA/DPC/SOC
Direct Dial: 020 7901 7201

05 September 2006

Dear Sir / Madam,

Decision in relation to EDF Energy's Modification Proposal to the Connection Charging Methodology

On 9 August 2006, EDF Energy submitted to the Gas and Electricity Markets Authority (the 'Authority')¹ a proposal to modify EDF Energy Networks (SPN) Plc's connection charging methodology along with a proposal to alter the form of the schedules of indicative charges within the statement.

The proposal to modify the connection charging methodology statement clarifies a number of areas including the extension of contestable works in line with recent Ofgem decisions.

Having carefully considered the issues raised in the proposal to amend the connection charging methodology statement, the Authority has decided not to veto the proposed modification.

Having carefully considered the issues raised in the proposal to amend the form of the schedule of indicative charges, the Authority has decided to approve the changes.

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

EDF Energy has licence obligations² to have in place as of 1 April 2005 three charging statements: the use of system ('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 connection charges are calculated. EDF Energy 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 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 4-4B

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

EDF Energy's Modification Proposal

EDF Energy proposes to clarify the connection charging methodology statement in the following ways:

- To extend the description of the work which can be contested to include diversionary and reinforcement works in accordance with the Ofgem April decision letter⁴.
- To make a number of clarifications to the methodology statement concerning, amongst other items;
 - a) treatment of high cost reinforcement of distributed generation
 - b) reservation of capacity and treatment of speculative and infrastructure projects
 - c) specific factors that may affect the connection charge
 - d) the requirement for an auditable inventory of unmetered supplies⁵
- To make a number of grammatical changes and changes to the EDF Energy brand.

In April 2006 Ofgem produced a decision letter on the proposal for extending the scope of contestable works in relation to competition in electricity connections. This further facilitated competition in connections by extending contestability to connection reinforcement and diversionary works that are completely and electrically separate from existing DNO infrastructure and do not require access to existing DNO operational areas, fully funded by a single third party or customer. The modification proposal is consistent with Ofgem's decision document.

The Authority's decision

The Authority has considered the proposal against the relevant objectives and wider statutory duties. The changes to the connection charging methodology statement improve the clarity of the statement and provide greater detail to parties on the scope of competition in connections. These changes better facilitate achievement of the relevant objectives by allowing EDF Energy 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 the modifications to the connection charging methodology statement.

The Authority has also considered the proposed changes to the form of the schedule of indicative charges and has decided to approve them.

Please contact Laura Nell on 020 7901 7201 if you have any queries in relation to the issues raised in this letter.

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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.

⁴ 69/06 decision letter – proposal for extending the scope of contestable works in relation to competition in electricity connections 13/04/06

⁵ This particular change does not affect connection charges but aside from this approval we expect EDF Energy to align its UoS methodology and its UoS charging statement on unmetered supply charges.

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