



18 September 2006

The Company Secretary
Western Power Distribution (South West)
Avonbank
Feeder Road
Bristol
BS2 0TB

Western Power Distribution
Company Secretary

Your Ref: WPD/West/002
Our Ref: RBA/DPC/SOC/
Direct Dial: 020 7901 7255

cc: Tim Hughes (by email only)

Dear Colleague,

Decision in relation to Modification Proposal to the Connections Charging Methodology: Proposals to Modify Part B of the Connection Charging Statement.

On 8 September 2006, Western Power Distribution ("WPD") submitted to the Gas and Electricity Markets Authority ("the Authority")¹ a proposal to modify its connection charging methodology for its South West area.

The proposal modifies the connection charging methodology statement to clarify a number of areas including WPD's approach to competition in connections in line with Ofgem's decisions. The proposal also clarifies WPD's approach to connection offer validity and provides additional information on connecting embedded networks and small scale embedded generation¹⁸ September 2006.

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 obligations² to have in place as of 1 April 2005 three charging statements: the statement of use of system ("UoS") methodology, the statement of UoS 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 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 WPD'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;

WPD Modification Proposal

WPD proposes to clarify the connection charging methodology statement for its South West licence in the following way:

- 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) connection offer validity.
 - b) process for connecting embedded networks and small scale embedded generators.
- To amend the schedule of indicative charges

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 modification proposal further clarifies the circumstances in which WPD may withdraw a connection offer and make a new offer and WPD's process for connecting embedded networks and small scale embedded generators.

The Authority's decision

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 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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- (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.

Yours sincerely,

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

Martin Crouch
Director, Distribution

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