

The Company Secretary
SP Distribution Ltd
1 Atlantic Quay
Robertson Street
Glasgow
G2 8SP

*Promoting choice and
value for all customers*

Your Ref: COM-06-002
Our Ref: RBA/DPC/SOC
Direct Dial: 020 7901 7255

Cc Tony McEntee (by email only)

16 November 2006

Dear Colleague,

Decision in relation to modification proposal to the connection charging methodology: Clarification of Reinforcement Apportionment Rules

On 20 October 2006, Scottish Power Distribution Ltd ("SPD") submitted to the Gas and Electricity Markets Authority¹ ("the Authority") a proposal to modify its connection charging methodology.

The proposal modifies the connection charging methodology statement to clarify the approach used by SPD in the application of the reinforcement apportionment rules.

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 reason for the Authority's decision.

Background

SPD 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. SPD has a requirement to keep the methodology under review and bring forward the proposals to modify the methodology that it considers better facilitate achievement of the relevant objectives.³

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 SPD's 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 license;

SPD Modification proposal

SPD proposes to clarify the connection charging methodology statement by:

- Including wording to provide clarity over the application of the one voltage above rule to reinforcement works being from point of connection and not the voltage of supply.
- Acknowledging the consistent treatment of reinforcement costs when dealing with speculative developments
- Clarifying the position of users requesting an upgrade to their capacity by stating that the incremental change will be used as the basis of apportioning cost.
- Replacing the existing five examples illustrating apportionment rules under different circumstances with four extended examples.

SPD justified this on grounds that this modification change will allow the methodology to better meet the relevant objectives as set out in SLC 4B paragraph 3.

The Authority's decision

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

This modification attempts to clarify SPD's connection charging methodology statement. In the Authority's view, explicitly stating that the one voltage rule occurs at the point of connection provides clarity for customers. This is more consistent with the competitive connection arrangements and facilitates independent network development. This is also the view with regard to clarification of cost apportionment when an upgrade to an existing connection was required.

SPD's position on contributions to reinforcement with reference to infrastructure and speculative developments has been made explicit by the modification proposal. Infrastructure and speculative developments fall under a different section reference and the existing methodology statement made no mention of contributions to reinforcement for such developments. The only meaningful reference was that as a network extension, works would be charged in full. The inclusion of the two sentences referencing section 2.3 "Reinforcement Apportionment Rules" now make clear that the treatment of reinforcement apportionment does extend to infrastructural and speculative developments.

The new supplementary examples were received as covering a better range of circumstances. It was noted however that only one of the examples addressed the situation of new reinforcement where the remaining three covered contributions to

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- (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 changes which reflect, as far as is reasonably practicable (taking into account of implementation costs), the costs incurred by the licensee and 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 is practicable, properly takes account of developments in the licensee's distribution business.

existing reinforcement. It is not clear that this is a representative set of examples but overall the examples were seen to help in the understanding of how the apportionment rule worked.

The Authority has decided not to veto the modification to the connection charging methodology statement.

Please contact Laura Nell on 020 7901 7201 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', written over a light grey rectangular background.

Martin Crouch

Director, Distribution

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