



The Company Secretary
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*Promoting choice and
value for all customers*

Your Ref: COM 06 005
Our Ref: RBA/DPC/SOC/
Direct Dial: 020 7901 7255
17 November 2006

Cc: Bev Hudson (by email only)

Dear Colleague,

Decision in relation to modification proposal to the connection charging methodology: clarification of application fees

On 20 October, Scottish Power Distribution Ltd ("SPD") submitted to the Gas and Electricity Markets Authority ("the Authority")¹ a proposal on to modify their connection charging methodology.

The proposal modifies the connection charging methodology statement by inserting into the methodology an explanation of the circumstances as to when an application fee will be charged. Similar wording had previously been situated in the indicative charges section of the statement. The proposal also contains some revisions to the existing wording.

Having carefully considered the issues raised in the proposal, the Authority has decided 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;
- (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.

SPD Modification proposal

SPD proposes to clarify their connection charging methodology statement by including further information concerning the circumstances when application fees will apply. The wording inserted into the methodology from the indicative charges section includes a number of revisions:

- SPD state that the amount of the fee is dependent on both the electrical capacity and highest voltage up to one voltage higher than the point of connection.
- SPD state that where multiple applications are submitted for the same connection, a fee will apply for each additional LV offer requested.
- SPD state they will charge where generation is being installed for greater than 16A single phase or three phase (typically industrial).

SPD argue that by inserting this revised wording into their methodology rather than in their indicative charges, they are providing greater clarity and are thus better meeting the licence objectives.

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 does provide greater clarity as its inclusion within the methodology facilitates a greater understanding of the charges that a customer will receive. In some instances the revisions to the wording surrounding applications fees does provide greater clarity in that customers can be certain that the fee is dependent upon the highest voltage point up to one voltage higher than the point of connection. It is also now clear under which circumstances generation wishing to connect to the distribution system will be charged an application fee.

However, the Authority considers that the revised wording concerning fees for multiple applications is unclear. SPD state that where multiple applications are submitted for the same connection, the initial offer is free, whilst a fee of £150 will apply for each additional LV offer requested. It is not clear whether 'multiple applications' refers to a number of applications from different Independent connection providers ("ICPs"), in a competitive scenario, for the same connection, or a number of applications from the same ICP each containing different specifications for the same connection, or both. It is not clear that the proposal better meets the licence objectives in that it would not be more cost reflective. Furthermore, charging an application fee for ICPs who do not apply for the connection first, will not better meet the licence obligation to facilitate competition in electricity distribution.

On this basis the Authority considers that it is unable to approve the modification proposal. Whilst the inclusion of the text surrounding application fees into the methodology provides greater clarity and understanding, the Authority is concerned that the additional wording surrounding a fee for multiple LV applications does not better meet the licence objectives.

The Authority has decided veto the modification to the connection charging methodology statement.

(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.

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', is 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