



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

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*Promoting choice and  
value for all customers*

Your Ref: COM-06-006  
Our Ref: RBA/DPC/SOC  
Direct Dial: 020 7901 7255

Cc: Beverly Hudson (by email only)

6 November 2006

Dear Colleague,

**Decision in relation to modification proposal to the connection charging methodology: Housekeeping.**

On 20 October 2006, SP Distribution submitted to the Gas and Electricity Markets Authority ("the Authority")<sup>1</sup> a proposal to modify its connection charging methodology for its SP Distribution area.

The proposal modifies the connection charging methodology statement to clarify SP Distribution's approach to competition in connections in line with Ofgem's decisions.

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*

SP Distribution has licence obligations<sup>2</sup> 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. SP Distribution 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.<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 connection charging methodology, as contained in paragraph 3 of standard licence condition 4B of SP Distribution'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 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.

*SP Distribution Modification proposal*

SP Distribution proposes to clarify the connection charging methodology statement by making various updates including:

- Updating contact details.
- Replacing reference to P2/5 with P2/6.
- Removing reference to transitional issues regarding offers before 1 April 2006, which have now lapsed.
- Updating the contact address for energywatch.
- Updating schedule of indicative charges to show that costs are current at 1 December 2006 (the implementation date).

*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 appropriately updates it. This change better facilitates achievement of the relevant objectives by allowing SP Distribution to better discharge its duties under the licence. By improving the accuracy of the charging methodology, with respect to energywatch and SP Distribution contact details, provides a more concise methodology for customers.

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,



Martin Crouch

Director, Distribution

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

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(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.