

The Company Secretary
Western Power Distribution (South Wales) plc
Avonbank
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*Bringing choice and
value to customers*

Your Ref: WPD/WALES/WEST/UOS001
Our Ref: RBA/DPC/SOC
Direct Dial: 020 7901 7255

cc: Nigel Turvey (by email only)

30 October 2006

Dear Colleague,

Decision in relation to Modification Proposal WPD/WALES/WEST/UOS001 to the Use of System Charging Methodology: Removal of GDUoS charges for generation associated with connections supplied under profiles 1 to 4

On 24 October 2006 Western Power Distribution plc submitted a proposal, reference WPD/WALES/WEST/UOS001, to the Gas and Electricity Markets Authority (the 'Authority')¹ to modify the Use of System (UoS) charging methodology of Western Power Distribution (South Wales) plc (WPD).

The proposal modifies the UoS charging methodology statement to remove UoS charges associated with generation connected to premises supplied under profiles 1 to 4.

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 UoS charging methodology, the statement of UoS charges and the connection charging methodology. The UoS charging methodology outlines the method by which UoS 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 UoS charging methodology, as contained in paragraph 3 of standard licence condition 4 of WPD's distribution licence are:

WPD Modification Proposal

WPD proposes to modify the UoS charging methodology by setting UoS charges equal to zero for microgeneration connected to premises supplied under profiles 1 to 4.

The modification constitutes an exception to the general provision contained in the approved UoS charging methodology, which allows for a maximum annual change of 10% in generation UoS charges.

This is proposed on the grounds that the forecasted development of microgeneration and the associated need for investments in the low voltage network have not materialised and are not foreseen in the future. WPD considers that this proposal would better meet licence objectives, by improving the cost reflectivity of the charging methodology.

The Authority's decision

The Authority has considered the proposal against the relevant objectives and wider statutory duties. The proposed change to the UoS charging methodology statement improves the degree of cost reflectivity and is proportionate in terms of implementation costs. It also takes into account the recent and foreseen development in the Licencee's business. The Authority also considered that the impact on UoS charges is likely to be marginal. This change better facilitates achievement of the relevant objectives by allowing WPD to better discharge its duties under the licence.

The Authority has decided not to veto this modification.

Please contact Alberto Prandini on 020 7901 7281 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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- (a) that compliance with the UoS 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 UoS 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 UoS 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 UoS charging methodology, as far as reasonably practicable, properly takes account of developments in the licensee's distribution business.