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*Promoting choice and
value for all customers*

Your Ref: n/a
Our Ref: RBA/DPC/SOC
Direct Dial: 020 7901 7255

CC: John Hill (by email only)

21 November 2006

Dear Colleague,

Decision in relation to modification proposal to the connection charging methodology: Small and Medium Embedded Power Stations

On 27 October 2006, Central Networks West plc ("CNW") submitted to the Gas and Electricity Markets Authority ("the Authority")¹ a proposal to modify its connection charging methodology.

The proposal modifies the connection charging statement by the addition of a section on small² and medium³ embedded power stations within the area of generator connections, providing clarification of CNW's role.

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

CNW has licence obligations⁴ to have in place as of 1 April 2005 three charging statements: the statement of use of system charging ("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. CNW has a requirement to keep the methodology under review and bring forward the

¹ Ofgem is the office of the Authority. The terms 'Ofgem' and the 'Authority' are used interchangeably in this letter.

² A Small Power Station is defined in the Grid Code, available at: <http://www.nationalgrid.com/uk/Electricity/Codes/gridcode/>

³ A Medium Power Station is defined in the Grid Code, available at: <http://www.nationalgrid.com/uk/Electricity/Codes/gridcode/>

⁴ Standard licence conditions 4-4B

proposals to modify the methodology that it considers better facilitate achievement of the relevant objectives.⁵

CNW Modification proposal

CNW proposes to clarify the connection charging methodology statement by:

- including within Section 6 of the Statement an additional sub-section to provide for Small and Medium Embedded Power Stations which are connecting or are intending to connect to its Distribution System.

CNW considers that this proposed change acknowledges the change to the Connection and Use of System Code ("CUSC") regarding small and medium embedded power stations. CNW notes that it is now required to submit a request for a statement of works to National Grid Electricity Transmission plc ("NGET"). This applies when a medium embedded power station intends to connect to the distribution system, or where (in CNW's reasonable opinion) a small embedded power station is likely to have a significant effect on the transmission system. CNE also notes that NGET may levy charges on CNW for study works to assess the impact of the generator on the Transmission System.

CNW considers that the proposed change is justified as it 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.

We note that the amendment to the CUSC sought to clarify the process followed by a DNO and NGET prior to the energisation of embedded medium power stations and certain types of embedded small power stations. It sets out that NGET may charge a DNO for the provision of a statement of works. The CNW modification proposal states that when NG levies charges on CNW for the cost of a study to assess the impact of the generation on the transmission system, then CNW will transfer these costs onto the party seeking connection. We consider that by explicitly stating the circumstances where charges for a statement of works may be payable by a party seeking connection to the CNW distribution system enhances the transparency of the methodology for users.

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

⁵ The relevant objectives for the connection charging methodology, as contained in paragraph 3 of standard licence condition 4B of CNW'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.
- (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