



The Company Secretary
Central Networks West plc
Westwood Way
Westwood Business Park
Coventry
CV4 8LG

CC: John Hill (by email only)

*Promoting choice and
value for all customers*

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

3 November 2006

Dear Colleague,

Decision in relation to modification proposal to the connection charging methodology: Clarification of the 'Voltage Rule'.

On 27 October 2006, Central Networks West ("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 providing clarification of the 'Voltage rule' through the specification of the circumstances when costs associated with reinforcement assets are subject to apportionment.

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 obligations² 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 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 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.

CNW Modification proposal

CNW proposes to clarify the connection charging methodology statement by:

- Clarifying that the 'Voltage rule' for apportioning the costs of reinforcement, applies to reinforcement of assets up to one voltage level above the voltage of the point of connection, rather than the voltage of supply.

CNW's current methodology is ambiguous in relation to the voltage rule. It currently sets out that reinforcement costs up to one voltage above will be apportioned to the customer. However it is not clear to parties whether it is voltage of the point of connection to the existing network or voltage of supply that will be used by CNW in determining what (if any) reinforcement costs should be charged to the connecting party.

The Authority's decision

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

This modification clarifies CNW's connection charging methodology and better details how CNW will apply the 'Voltage rule'. This clarification will aid customers in establishing the basis of their connection charge. The proposal to use the voltage of the point of connection to the existing network, rather than the voltage of supply, is more consistent with the competitive connection arrangements and independent network development. This change will bring into line the point of connection applications for contestable works and IDNO network extensions with the charging boundary.

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

- (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.