



The Company Secretary
Scottish Hydro-Electric Power Distribution plc
Grampian House
200 Dunkeld Road
Perth
PH1 3AQ

Promoting choice and
value for all customers

Your Ref: SHEPD/06/002B
Our Ref: RBA/DPC/SOC
Direct Dial: 020 7901 7255

Cc: Aileen Boyd (by email only)

27 November 2006

Dear Colleague,

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

On 1 November 2006, Scottish and Southern Energy plc submitted a proposal on behalf of Scottish Hydro-Electric Power Distribution plc ('SHEPD') to the Gas and Electricity Markets Authority ("the Authority")¹ a proposal to modify its connection charging methodology for its SHEPD area.

The proposal modifies the connection charging methodology statement for a number of housekeeping changes to clarify SHEPD's approach.

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

SHEPD 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. SHEPD 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 SHEPD'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.

SHEPD Modification proposal

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

- Change in company status from 'Scottish Hydro-Electric Power Distribution Limited' to 'Scottish Hydro-Electric Power Distribution plc'.
- Updating company address.
- Correcting typographical and numbering errors and the removal of unnecessary website links.
- Removal of unnecessary narrative in two sections referring to tariff support allowance and temporary connections.

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 SHEPD to better discharge its duties under the licence. Improving the accuracy of the charging methodology, by updating SEPD's contact details and by removing unnecessary narratives, 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

(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.