

The Company Secretary
United Utilities Electricity plc
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*Promoting choice and
value for all customers*

Your Ref: UU/2007/001
Our Ref: RBA/DPC/SOC
Direct Dial: 020 7901 7255

cc: Frank Welsh (by email only)

15 December 2006

Dear Colleague,

Decision in relation to modification proposal UU/2007/001 to the connection charging methodology: Worked Examples

On 1 December 2006, United Utilities Electricity Plc ("UU") submitted to the Gas and Electricity Markets Authority¹ ("the Authority") a proposal to modify its connection charging methodology.

The proposal modifies the connection charging methodology statement by making changes to the existing worked examples and including a new worked example within section 6.

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

UU 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. UU 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 UU'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

UU Modification proposal

UU proposes to clarify the connection charging methodology statement by:

- Making changes to the existing worked examples:
 1. Example 1: adding more detail on excavation costs
 2. Example 2: updating the diagram labelling, transformer size and clarifying that the non-contestable cost is inclusive of engineering time
 3. Example 9: adding more detail on switchgear costs
- Including a new worked example within section 6 illustrating reinforcement apportionment rules

UU states that this proposal has been brought forward to ensure the examples better describe how connection and reinforcement charges are calculated, and to add a new example to aid the customer's understanding of the cost apportionment factor rules.

UU sets out that these changes better meet 'relevant objectives' (b) and (c) as the better descriptions and inclusion of a new worked example will help customers to understand the likely charges associated with typical new connections to United Utilities distribution network and facilitate competition in the provision of connection services.

The Authority's decision

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

This modification attempts to clarify UU's connection charging methodology statement. In the Authority's view, the changes to the existing examples are acceptable. With the example relating to apportionment rules, the description and circuit diagram are clear and correctly describe apportionment rules with respect to a new connection. 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 UU to better discharge its duties under the licence. By allowing parties to better understand the charging methodology this may further facilitate competition in electricity connections.

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

Please contact Colette Schrier on 020 7901 7239 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

(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.