

The Company Secretary
United Utilities Electricity Plc
Dawson House
Great Sankey
Warrington
Cheshire
WA5 3LW

*Promoting choice and
value for all customers*

Your Ref: UU/2007/004
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 to the connection charging methodology: clarification of competitive connections activity.

On 1 December 2006, United Utilities (UU) Electricity plc submitted to the Gas and Electricity Markets Authority ("the Authority")¹ a proposal to modify UU's connection charging methodology statement.

The proposal modifies the connection charging methodology statement to clarify UU's approach to competition in connections in line with Ofgem's decisions.

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 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 connection charging methodology, as contained in paragraph 3 of standard licence condition (SLC) 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 in the following way:

- To amend the list of non-contestable works to reflect the extension of contestability for reinforcement and diversion works.
- To include Lloyds' address and website within the statement.
- To distinguish between statutory and competitive connections in the application process.
- To clarify that UU will accept applications for a competitive connection from developers or accredited installers.
- To clarify that the POC fee is payable following the acceptance of the POC and subsequent design validation.

UU also proposes to amend the indicative charges section of the charging methodology statement as follows:

- To include extra detail of the description of the indicative charges for inspection and monitoring.

In April 2006 Ofgem published a decision letter on the proposal for extending the scope of contestable works in relation to competition in electricity connections⁴. The proposal to clarify the list of non contestable works is in line with Ofgem's proposals and is consistent with UU's other amendments to contestability for reinforcement and diversionary works. UU states that these further changes aid customer understanding and provide greater access to information for customers when applying for a statutory or competitive connection.

The Authority's decision

The Authority has considered the proposal against the relevant objectives and wider statutory duties. The clarification of when a POC fee is payable aids understanding. The clarification of the distinction between competitive and statutory new connection applications aids competition in connections and thus greater facilitates the relevant objectives. The inclusion of Lloyds' address and website provides the customer with greater access to information about accredited installers. The amendments to the list of non-contestable works ensure that the statement is consistent with other amendments made to UU's statement concerning contestability for reinforcement and diversion works. This provides clarity and transparency within the connection charging methodology statement.

The above changes better facilitate 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, competition in electricity connections may be further facilitated.

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

(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.

⁴ 69/06 Decision letter – Proposal for extending the scope of contestable works in relation to competition in electricity connections 13/04/06.

The amendments to the indicative charges section concerning inspection and monitoring represent changes to the form of the statement under SLC4B (5a). The Authority approves this change of form.

Please contact Roger Morgan on 020 7901 7346 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', 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