



The Company Secretary
Scottish Hydro-Electric Power Distribution plc
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Promoting choice and
value for all customers

Your Ref: SHEPD/06/004B
Our Ref: RBA/DPC/SOC
Direct Dial: 020 7901 7255

Cc: Malcolm Burns (by email only)

28 December 2006

Dear Colleague,

Decision in relation to modification proposal SHEPD/06/004B to the connection charging methodology: Extending the Scope of Contestable Connection Works.

On 8 December 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 to modify its connection charging methodology for its SHEPD area.

The proposal modifies the connection charging methodology statement to clarify SHEPD'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

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 proposals to modify the methodology so that it considers better facilitates 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.

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 distribution 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.

SHEPD Modification proposal

SHEPD proposes to clarify the connection charging methodology statement in the following way:

- To extend the description of the work which can be contested to include diversionary and reinforcement works in accordance with the Ofgem April decision letter⁴.

In April 2006, Ofgem published a decision letter on the proposal for extending the scope of contestable works in relation to competition in electricity connections. This further facilitated competition in connections by extending contestability to connection reinforcement and diversionary works that are completely and electrically separate from existing DNO infrastructure, do not require access to existing DNO operational areas and are fully funded by a single third party or customer. The modification proposal is consistent with Ofgem's decision document.

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 provides greater detail to parties on the scope of competition in connections. This change better facilitates achievement of the relevant objectives by allowing SHEPD 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 Roger Morgan, Senior Manager, Connections Policy on 020 7901 7346 if you have any queries in relation to the issues raised in this letter.

Yours faithfully,



Martin Crouch
Director, Electricity 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.

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