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*Promoting choice and
value for all customers*

Your Ref: UU/2007/006
Our Ref: RBA/DPC/SOC
20 April 2007

Direct Dial: 020 7901 7255

Dear Colleague,

Decision in relation to modification proposal UU/2007/006 to the connection charging methodology: application of the security cost apportionment factor rule in respect of additional load requests.

On 28 March 2007, United Utilities submitted to the Gas and Electricity Markets Authority ("the Authority")¹ a proposal to modify its connection charging methodology.

The proposal seeks to clarify the calculation of the cost apportionment factor (CAF) used to establish the proportion of reinforcement costs attributed to an applicant who requests an increase to their existing maximum capacity requirements. The amendment clarifies that where an existing customer requests an increase in capacity, the term 'required capacity' as used in the security CAF formula shall be defined as the incremental capacity required by the customer.

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

United Utilities 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. United Utilities 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 license;

United Utilities modification proposal

- Amendment to the application of the security CAF rule in respect of additional load requirements

United Utilities has proposed to clarify the calculation of the security CAF, which is used to apportion reinforcement costs to a customer who requests an increase to their existing maximum capacity requirements. For existing customers requesting a capacity increase the proposal defines required capacity as the customer's required incremental capacity.

In the Worked Examples section the addition of Example 11 demonstrates the costs associated with increasing the on-site load capacity.

The Authority's decision

The Authority has considered the proposal against the relevant objectives and wider statutory duties. The Authority considers that the change to the connection charging methodology better facilitates achievement of the relevant objectives.

The proposed wording and the inclusion of a new example help the customer in making a better estimate of the connection charge and understanding the method used to apportion charges. The Authority also considers that resulting connection charges would better reflect the costs incurred by the licensee in its distribution business.

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

Please contact Alberto Prandini on 020 7901 7281 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

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- (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
 - (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.