



The Company Secretary  
EDF Energy Networks Ltd  
40 Grosvenor Place  
Victoria  
London  
SW1X 7EN

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*Promoting choice and  
value for all customers*  
Your Ref:EDFE015  
Our Ref: RBA/DPC/SOC  
DATE:16 July 2007

Direct Dial: 020 7901 7255

Dear Colleague,

**Decision in relation to modification proposal EDFE015 to the connection charging methodology: clarification of the connection charging apportionment rules with respect to existing customers requesting additional capacity and addition of worked examples to illustrate application of proposed apportionment rules**

On 19 June 2007, EDF Energy Networks Ltd ("EDF Energy") submitted a proposal to the Gas and Electricity Markets Authority ("the Authority")<sup>1</sup> to modify its connection charging methodology for its EPN, LPN and SPN distribution networks.

The proposal adds further worked examples and statements to the connection charging methodology that demonstrate how charges are calculated for existing customers who request a change to their connection requirement.

Having considered the issues raised in the proposal, we have decided to veto the proposed modification.

This letter sets out the background to the modification proposal, summarises the proposed changes and explains our decision.

*Background*

EDF Energy has licence obligations<sup>2</sup> to have in place as of 1 April 2005 three charging statements: the statement of use of system (UoS) charging methodology, the statement of UoS charges and the connection charging methodology. The connection charging methodology outlines the method by which connection charges are calculated. EDF Energy has a requirement to keep the methodology under review and bring forward the proposals to modify the methodology that it considers better achieves the relevant licence objectives.<sup>3</sup>

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<sup>1</sup> Ofgem is the office of the Authority. The terms 'Ofgem' and 'the Authority' are used interchangeably in this letter.

<sup>2</sup> Standard licence conditions 4-4B

<sup>3</sup> The relevant objectives for the connection charging methodology, as contained in paragraph 3 of standard licence condition 4B of EDF Energy'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;

### *EDF Energy modification proposal*

- The proposal adds wording to the methodology setting out the application of the cost apportionment factor (CAF) rule in respect of existing customers increasing their load requirements. For existing customers requesting a capacity increase the proposal defines the required capacity as the new total capacity requirement, including both the existing capacity and the required additional capacity.
- EDF Energy has added additional examples to demonstrate the application of this rule.

### *Ofgem's decision*

EDF Energy's proposal sets out to charge the customer on the basis of both the existing and required new additional capacity when calculating the costs to customers wishing to increase their total capacity requirement.

The proposed wording and the inclusion of new examples clarifies EDF Energy's policy in relation to existing customers. For the same reinforcement scheme, a new customer would not be apportioned costs in the manner proposed for existing customers. We are concerned at this lack of consistency. Whilst we note that there may be practical issues surrounding the timing of requests for increased capacity, and can appreciate that some restrictions may be needed to take this into account, EDF Energy's proposal covers all existing customers irrespective of the date of connection. In addition, it may lead to customers paying more than once for new capacity requirements. We do not believe in this case, therefore, that this proposal results in connection charges that better reflect the costs incurred by the licensee in its distribution business.

We have decided to veto EDF Energy's proposed modification to the connection charging methodology statement.

Please contact Tom Handysides on 020 7901 7289 if you have any queries relating to 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 charges 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.