

The Company Secretary
United Utilities
Dalton House
Birchwood Park
Warrington
WA3 6YF

Promoting choice and
value for all customers
Your Ref: UU/2008/001
Our Ref: RBA/DPC/SOC

30 July 2007

Direct Dial: 020 7901 7255

Dear Colleague,

Decision in relation to modification proposal to the connection charging methodology: revise the form of non contestable charges

On 16 July, United Utilities (UU) submitted to the Gas and Electricity Markets Authority ("the Authority")¹ a proposal to modify its connection charging methodology.

The proposal modifies the connection charging statement by restructuring the layout of the charges so as to make them more easily understandable and making the table of indicative charges more comprehensive in their description of the activities for which a customer will be charged.

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) 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. 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
- (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.

UU Modification proposal

UU have modified their connection charging methodology by making various changes to their indicative charges section. These include:

- Amending how their indicative charges are laid out and presented
- Providing greater detail in their proposal on how these charges are calculated
- Rearranging the categories of their table of design approval charges
- Removing a table detailing indicative system operation charges and incorporating these charges into initial jointing and energisation activities
- Stating that the production and administration costs of adoption agreements will be charged to the customer

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 improves the clarity of the statement and makes it easier for a customer to gauge what charges they are likely to incur. The Authority considers that the proposed changes improve the cost reflectivity of the methodology. By rolling the indicative 'system operation charges' into 'initial jointing and energisation charges' customers have more certainty over the price they will pay for works. Also, in stating that the administration and production costs of adoption agreements will be chargeable, UU are providing the customer with a greater understanding of the costs they can expect to be charged for.

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

Please contact Simon Polley on 0207 901 7326 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