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*Promoting choice and  
value for all customers*

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Cc: Darren Grundy (email only)

Date: 25 January 2008

Dear Colleague

### **Authority decision on Connection Charging Methodology**

Under standard licence condition (SLC) 4B (Connection Charging Methodology) Laing O'Rourke Energy Limited (Laing) is required to have in place a connection charging methodology which has been approved by the Authority<sup>1</sup> and that achieves the relevant objectives<sup>2</sup>.

On 18 January 2008 Laing submitted a connection charging methodology statement to the Authority for its approval.

The Authority has considered Laing's connection charging methodology against the relevant objectives in SLC 4B. Having carefully considered the issues raised in the statement the Authority has decided to approve the methodology statement. This letter sets out the reasons for its decision.

In April 2005 DNOs implemented a new connection charging methodology based on a revised connection boundary. This revised boundary introduced a common connection boundary between demand and generation. This represented a shallower boundary for generation who were previously charged under a deep connection basis. It also represented a movement away from the 25% rule which demand customers had been charged under the previous methodology. The revised common connection boundary provides greater economic charging for both the connecting customer and for other users who make use of reinforced assets which have been installed due to the connection request. It also ensured common charging between demand and generation.

<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> The relevant objectives for the connection charging methodology, as contained in paragraph 3 of standard licence condition 4B of Laing'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.

Laing has proposed in its connection methodology to maintain this shallowish connection boundary. It has stated how it will apply this methodology in two separate scenarios.

The first scenario outlined by Laing is where a new customer requests a connection or an existing customer requests an increase in capacity. Laing state that where either request triggers reinforcement on Laing's network, they will charge existing customers on an incremental basis while reserving the right to charge on a total basis should a customer change their requirements within a short period of time e.g. 5 years.

The Authority considers that this is an appropriate approach and is in keeping with the principles outlined in SLC 4B(8). The Authority considers that this creates an appropriate balance between new connectees and existing customers and promotes efficient development of the distribution system.

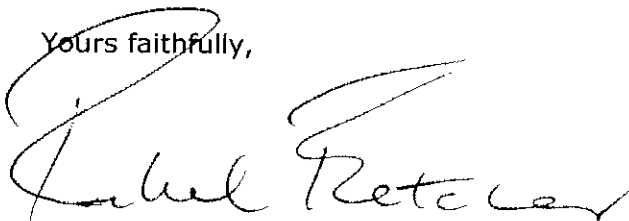
The second scenario outlined by Laing is where a new customer requests a connection or an existing customer requests an increase in capacity which triggers reinforcement on a third party network (a DNO's or another IDNO's network). Laing state it will charge any costs they incur (i.e. charged by the DNO/IDNO) to the customer in full. Laing states that it will apply this principle with the exception of a scenario where an LV customer triggers reinforcement on a third party's EHV network.

The Authority considers that these are appropriate principles for Laing to adopt. The upstream distribution licensee will apportion any reinforcement charges which Laing trigger on their network. It is in keeping with the principles outlined in SLC 4B(8) that Laing pass these charges on to the customer. The Authority considers that this constitutes a cost reflective approach. The Authority also notes that Laing's customers will be charged on the same basis as they would have done had they been connected to the host DNO network. Consequently, this approach maintains a consistent connection boundary and charging principles across all distribution licensees for both demand and generation customers.

The Authority has consequently decided to approve Laing's connection charging methodology. Laing should note that it is under a licence obligation<sup>3</sup> to review this methodology at least once a year and raise any modifications to the methodology as are necessary for the purpose of better achieving the relevant objectives.

If you have any questions surrounding the issues raised in this letter, please contact Mark Askew at [mark.askew@ofgem.gov.uk](mailto:mark.askew@ofgem.gov.uk) or on 0207 901 7022.

Yours faithfully,



**Rachel Fletcher**  
**Director, Electricity Distribution**

Signed on behalf of the Authority and authorised for that purpose by the Authority

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<sup>3</sup> 4b(2)