



The Company Secretary
Electricity North West Limited
Dalton House
104 Dalton Avenue
Birchwood
Warrington
WA3 6YF

*Promoting choice and
value for all customers*

Your Ref: ENW/2008/004
Our Ref: RBA/DPC/SOC
Direct Dial: 020 7901 7194
Email@ rachel.fletcher@ofgem.gov.uk

Cc: Frank Welsh, Simon Brooke
(by email only)

Date: 7 February 2008

Dear Colleague,

Decision in relation to modification proposal ENW/2008/004 to amend the Distributed Generation charging methodology within Electricity North West Limited's licence condition 4 statement.

On 21 January 2008, Electricity North West Limited ("ENW") submitted a proposal to the Gas and Electricity Markets Authority ("the Authority")¹ to modify its use of system (UoS) charging methodology for its electricity distribution network.

ENW proposes to make several changes to its Distributed Generation (DG) UoS charging methodology. These changes include aligning the terminology used in the statement with Ofgem's DG Regulatory Instructions and Guidance (Rigs) document², creating a new customer class where the connection doesn't trigger reinforcement, and modifying the structure of the tariff for low voltage non-half hourly (LV NHH) generation customers.

Having carefully considered the issues raised in the proposal, we have decided not to veto the proposed modification.

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

Background

ENW has licence obligations³ to have in place as of 1 April 2005 three charging statements: the statement of UoS charging methodology, the statement of UoS charges and the connection charging methodology. The UoS charging methodology outlines the method by which UoS charges are calculated. ENW 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.⁴

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

² DG Incentive Regulatory Instructions and Guidance, Version 2 (effective April 2007)
[http://www.ofgem.gov.uk/Networks/ElecDist/PriceCntris/RevandPrice/Documents1/DG_Rigs_v2.12_\(for_publication\).pdf](http://www.ofgem.gov.uk/Networks/ElecDist/PriceCntris/RevandPrice/Documents1/DG_Rigs_v2.12_(for_publication).pdf)

³ Standard licence conditions 4-4B

⁴ The relevant objectives for the UoS charging methodology, as contained in paragraph 3 of standard licence condition 4 of ENW's licence are:

ENW modification proposal

- ENW proposes to align the terminology used in the statement with Ofgem's DG Incentive Rigs. This includes adding references to the DG Incentive and updating terminology, for example changing references to 'generators' to 'Distributed Generation'.
- ENW also proposes to create a new class of generation customer whose connection requires no reinforcement work. This will enable ENW to charge those applicants who impose no reinforcement costs according to just the relevant elements of the DG Incentive.
- ENW also proposes to change the structure of the tariff for LV NHH generation customers. ENW propose to charge on a £/kW basis rather than the current p/day basis, reflecting the generator's required capacity and aligning this element with the calculation of allowed revenue.

Ofgem's decision

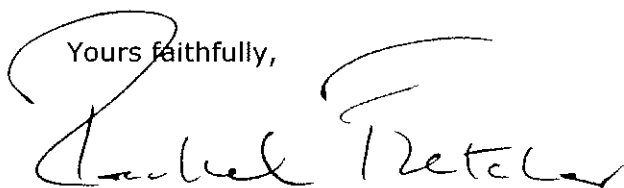
We have considered this proposal against the licence objectives and wider statutory duties. We consider that the proposed terminology changes improve clarity. Equally, the modification to LV NHH generation charges improves cost reflectivity since the proposed £/kW charge will take into account the capacity requirements of each generator, which the p/day charge does not currently reflect. The £/kW charge will be complemented by the existing £/kVArh charge for excess reactive units, incentivising the connecting party to operate within an acceptable power factor range.

In addition, we consider that ENW's proposal to introduce a new generation customer class will lead to a more cost reflective charge for an applicant who does not trigger reinforcement work to be carried out to facilitate their connection.

We have decided not to veto the modification to the UoS 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,



Rachel Fletcher

Director, Electricity Distribution

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

-
- (a) that compliance with the UoS charging methodology facilitates the discharge by the licensee of the obligations imposed on it under the Electricity Act 1989 and by this license;
 - (b) that compliance with the UoS 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 UoS 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 UoS charging methodology, as far as is practicable, properly takes account of developments in the licensee's distribution business.