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Electricity North West Limited
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*Promoting choice and
value for all customers*

Our Ref: ENW-2009-002
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Date: 11 June 2008

Dear Colleague

Decision in relation to proposal ENW-2009-002 to modify the connection charging statement: system study charges

On 15 May 2008, Electricity North West Limited ("ENW") submitted a proposal to the Gas and Electricity Markets Authority ("the Authority")¹ to modify its connection charging statement for its distribution network.

The modification concerns ENW's system study charging framework. ENW proposes to revise this to reflect guidance provided in The Authority's determination decision (RBA/TR/A/DET/89).

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

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

Background

ENW has licence obligations² to have in place as of 1 April 2005, a statement of use of system (UoS) charging methodology, a statement of UoS charges and a connection charging methodology and statement. The connection charging methodology and statement outlines the method by which connection charges are calculated. ENW has a requirement to keep the methodology under review and bring forward proposals to modify its methodology to better achieve the relevant licence 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 the 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.

Overview of Modification Proposal

A system study is required by ENW for certain connection requests. A study enables ENW to assess whether the existing network can accommodate the connection applicant's requirements and determine the minimum cost scheme. The revisions proposed concern ENW's system study charging methodology and charging framework for statutory and competitive connections to ENW's electricity distribution network. The modification covers the following.

- ENW's modification provides greater clarity on the circumstances under which a customer may require a system study. That is, a study would be undertaken where the connection application is likely to have a material effect on the safe and secure operation of the network, and/or any adverse effect on other connected customers.
- ENW proposes to amend the table which sets out its indicative charges, by establishing separate tables for demand and generation applications and providing more descriptive information for demand customers.
- ENW's modification provides more clarity to customers regarding the types of equipment that would cause power quality problems and trigger a demand system study, and clarifies that certain types of customers e.g single Small Scale Embedded Generation (SSEG) connections (that do not form part of a multiple installation programme on the same electrical feeding path) and domestic demand customers will not require a system study for their connection.

Ofgem's decision

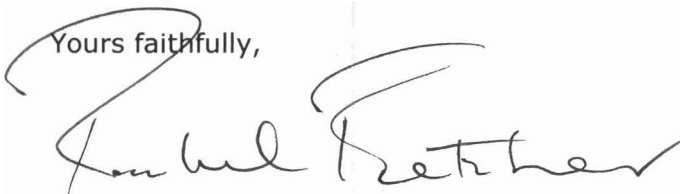
We have considered this proposal against the licence objectives and wider statutory duties. We believe that the modification furthers the relevant objectives and allows ENW to better discharge its duties under the licence for the following reasons.

The modification provides more descriptive information and clarity for customers about the circumstances under which ENW will undertake a system study and the rationale for such charges. The modification also provides greater transparency for customers over system study costs for generation and demand connections across voltage of connection and capacity requirements and clarifies that single SSEG and domestic customer connection requests will not attract a system study.

We have decided **not to veto** the modification to the connection charging statement.

If you wish to discuss any aspect of this decision please contact Roger Morgan, Senior Manager Compliance on 020 7901 7346 (email roger.morgan@ofgem.gov).

Yours faithfully,



Rachel Fletcher

Director, Distribution

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