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*Promoting choice and
value for all customers*

Your Ref: 0012N/2008

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cc: Chris Allanson (by email only)

Date: 14 July 2008

Decision in relation to modification proposal 0012N/2008: Initial contributor housekeeping

On 17 June 2008, CE Electric UK Limited ("CE") submitted a proposal to the Gas and Electricity Markets Authority ("the Authority") to modify its connection charging methodology for its Northern Electric Distribution Limited ("NEDL") distribution network.¹

CE has proposed to update its connection charging methodology and statement in order to make its Condition 13 statement clearer. The modification proposal seeks to explain that connecting customers will only be liable for a proportion of the costs of network assets that have necessarily been reinforced if (i) they derive a benefit from them, (ii) connect within 5 years of the assets being installed, and (iii) there is an initial third-party contributor.

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

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

Background

CE has licence obligations to have in force at all times a statement of Use of System (UoS) Charging Methodology and a Connection Charging Methodology². The Connection Charging Methodology outlines the method by which connection charges are calculated. CE 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 objectives³.

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

² Standard licence condition 13.

³ The 'Relevant Objectives' for the connection charging methodology, as contained in paragraph 3 of standard licence condition 13 of the licence are:

- (a) that compliance with the methodology facilitates the discharge by the licensee of the obligations imposed on it under the Electricity Act 1989 and by the licence;
- (b) that compliance with the 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 methodology results in charges which reflect, as far as is reasonably practicable (taking 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.

The connection charging apportionment rules came into effect on 1 April 2005, replacing the '25% rule' that had been in place previously. The rules are detailed within the DNOs' connection charging methodology statements and describe how much of any reinforcement costs should be born by a connectee. The rules apply to a prospective customer who requests a quote for connection to a distribution system and to an existing customer who requests a capacity upgrade.

This modification proposal is one of three submitted by CE Electric on 17 June 2008 in relation to its NEDL distribution network. Each proposal has been considered on an individual basis.

CE modification proposal

CE has proposed to make amendments to its Connection Charging Methodology Statement to explain that connecting customers will be liable for a proportion of existing reinforcement costs only if (i) they derive a benefit from them, (ii) connect within 5 years of the assets being installed, and (iii) there is an initial third party contributor.

We consider this modification clarifies the liability for reinforcement costs and complies with the Electricity (Connection Charging) Regulations. Therefore, we think the proposal should **not be vetoed**.

Ofgem's decision

This modification adds precision to the apportionment rules by making them clearer. Specifically, it makes clear the costs a connecting customer may face associated with previous reinforcement expenditure.

We have analysed this proposal taking into account both the relevant objectives and our wider statutory duties. We consider that resulting connection charges will better reflect the costs incurred by the licensee in its distribution business. The change promotes efficient and economic development of CE's network. We also consider the change helps customers to better estimate the connection charge and understand the method used to apportion charges.

Consequently, we have decided **not to veto** the modification to the connection charging methodology and statement.

Please contact Javier Tapia at javier.tapia@ofgem.gov.uk or on 020 7901 7074 if you have any queries relating to issues raised in this letter.

Yours faithfully,



Rachel Fletcher

Director, Distribution

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