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Your Ref: SHEPD/08/001A
Direct Dial: 020 7901 7194
Email: Rachel.Fletcher@ofgem.gov.uk

cc: Ian Bruce (by email only)

Date: 28 August 2008

Dear Colleague,

Decision in relation to modification proposal SHEPD/08/001A: Cost Apportionment Rules and Housekeeping Changes

On 31 July 2008, Scottish and Southern Energy plc ("SSE") submitted a proposal to the Gas and Electricity Markets Authority ("the Authority") to modify its connection charging methodology for its Scottish Hydro Electric Power Distribution plc ("SHEPD") distribution network¹.

SSE has proposed to update its connection charging methodology and statement in order to make its Standard Licence Condition ("SLC") 13 of the Electricity Distribution Licence statement clearer. It aims to improve clarity in order to enable customers to better understand how their charges are calculated.

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

SSE 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. SSE 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 supporting 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;

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 an existing customer who requests a capacity upgrade.

This modification proposal is one of two submitted by SSE on 31 July 2008 to clarify the application of the apportionment rules in relation to its SHEPD and Southern Electric Power Distribution ('SEPD') distribution network. Each proposal has been considered on an individual basis.

SSE modification proposal

In this proposal, SSE first modifies its statement in relation to the apportionment rules, in order to clarify the "one voltage level above" rule. Thus, costs of reinforcements undertaken at more than "one voltage level" above the "point of connection" to the existing network will not be charged to the connectee.

Secondly, SSE incorporates a new paragraph to the statement in order to clarify that its default position is to base the charge for reinforcement on the "incremental capacity" (not the "total capacity") required by the customer and that it will take this approach irrespective of how long after the original connection the reinforcement is required.

Finally, SSE makes various wording amendments and reorders the document to provide additional clarity.

Ofgem's decision

We have analysed this proposal taking into account both the relevant objectives and our wider statutory duties. We consider this modification further promotes competition in connections and distribution by making clearer the connection charging apportionment rules. The modification improves SSE's current ambiguous methodology wording, which states that reinforcement costs are limited to one voltage above the voltage of connection. The modification clarifies that it is the voltage at the point of connection to the existing network rather than the voltage of supply.

This modification also adds precision to the apportionment rules. In particular it makes unambiguous that the incremental capacity criteria will be the default rule used by SSE to charge for reinforcement. We consider the use of incremental capacity is in line with the principle that connection charges shall recover an amount for reinforcement based on a proportionate share of the costs of such reinforcement.

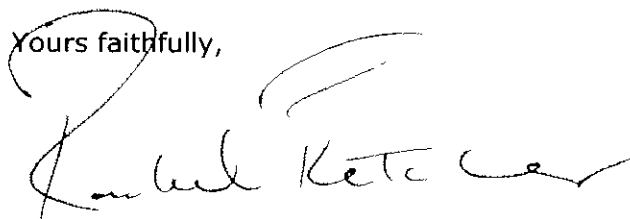
In sum, the modification aids competition and clarifies the existing rules. It promotes efficient and economic development of SSE's network and enables those who wish to connect to the distribution network to better understand and estimate the charges to which they would be subjected.

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

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- (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.

Please contact Colette Schrier at colette.schrier@ofgem.gov.uk or on 020 7901 7341 if you have any queries relating to issues raised in this letter.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Rachel Fletcher', with a large, stylized initial 'R'.

Rachel Fletcher

Director, Distribution

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