



The Company Secretary  
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*Promoting choice and  
value for all customers*

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cc: Wendy Mantle; and Jim  
McOmish (by email only)

Date: 7 October 2008

Dear Colleague,

**Decision in relation to SP Energy Networks' ("SP") modification proposal  
'COM/08/001a: Document Housekeeping'.**

On 10 September 2008, SP submitted a proposal to the Gas and Electricity Markets Authority ("the Authority")<sup>1</sup> to modify its Connection Charging Methodology Statement for its SP Distribution Ltd ("SPD") distribution network.

SP proposed to modify SPD's Connection Charging Methodology Statement, required under Standard Licence Condition ("SLC") 13 of the Electricity Distribution Licence ("the licence"), in order to bring it up to date with changes to the licence introduced by the Distribution Licence Review ("DLR"), as of 1 June 2008. The aim of this modification is to ensure that the statement accurately references the licence.

Having considered the issues raised by this 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

In accordance with SLC 13, SPD is required to have in force at all times a Use of System ("UoS") Charging Methodology and a Connection Charging Methodology. The Connection Charging Methodology outlines the method by which connection charges are calculated. SPD must review its methodologies at least annually and bring forward any proposals to modify its methodologies that it considers will better achieve the relevant licence objectives<sup>2</sup>.

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<sup>1</sup> Ofgem is the office supporting the Authority. The terms 'Ofgem' and 'the Authority' are interchangeable for the purposes of this letter.

<sup>2</sup> 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 DLR sought to improve the structure and wording of the licence in order to make it a clearer and more user friendly document. To this end it introduced a number of changes to the standard conditions of the electricity distribution licence, which took effect as of 1 June 2008. This included changes to the numbering of some of the licence conditions.

This modification proposal is one of two submitted by SP in relation to its SPD distribution network on 10 September 2008. SP also submitted identical proposals in relation to its SP Manweb plc distribution network on the same day. Each proposal has been considered on an individual basis.

#### SP modification proposal

SP proposes to modify SPD's Connection Charging Methodology Statement in order that it accurately references the licence. This involves updating references to SLCs in the statement, which have changed since the proposals of the DLR were introduced on 1 June 2008.

#### Ofgem's decision

We have analysed this proposal taking into account both the relevant objectives and our wider statutory duties. We consider that this modification better achieves Relevant Objective (d) and takes into account a development in the licensee's distribution business. That is, that the standard conditions of its licence changed as a consequence of introducing the proposals of the DLR. It is clear SPD's Connection Charging Methodology Statement must be updated in line with such changes.

Consequently, we have decided not to veto this modification to SPD's Connection Charging Methodology Statement.

Please contact Donald Smith at [donald.smith@ofgem.gov.uk](mailto:donald.smith@ofgem.gov.uk) or on 020 7901 7483 if you have any queries in relation to the 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.

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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.