



The Company Secretary
SP Distribution Ltd
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Promoting choice and
value for all customers

Your Ref: COM/08/002a
Direct Dial: 020 7901 7194
Email: Rachel.Fletcher@ofgem.gov.uk

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

Date: 7 October 2008

Dear Colleague,

**Decision in relation to SP Energy Networks' ("SP") modification proposal
'COM/08/002a: Reinforcement Apportionment Rules'.**

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

SP proposed to update its Connection Charging Methodology Statement, required under Standard Licence Condition ("SLC") 13 of the electricity distribution licence ("the licence"), in order to clarify its rules regarding the apportionment of reinforcement costs and to ensure consistency with the licence.

Having considered the issues raised by SP's 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

In accordance with SLC 13, SPD is required to have in force at all times a Use of System 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 objectives².

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

² 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 explained in each DNOs' Connection Charging Methodology Statement and describe what portion of any reinforcement costs are borne by a connectee. The rules apply to connecting customers and existing customers modifying their connection.

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 relation to the reinforcement apportionment rules, in order to make clear the circumstances in which a portion of the costs of pre-existing reinforcement will be included in a connecting customer's connection charge. Specifically, SP intend to make it clear that where they have undertaken 'general' reinforcement on their network, i.e. where no contribution to the costs have been made by a previous connectee (a first comer), then the connecting customer will not contribute towards the cost of that reinforcement through their connection charge.

A more detailed explanation of SP's proposal can be found on the Ofgem website³.

Ofgem's decision

We have analysed this proposal taking into account both the relevant objectives and our wider statutory duties.

We consider that by clarifying SPD's apportionment rules, this modification better achieves Relevant Objective (b). Clearer apportionment rules will allow distributed generators, other developers and independent connection providers to estimate more accurately the costs they will be subject to, upon connection or the provision of a connection and could promote effective competition in both areas.

SP's proposal will also make it clear that the SPD charging methodology is in accordance with the E(CC)R⁴, 2002, which is provided for under the Electricity Act 1989. The E(CC)R describes the manner in which connecting customers are charged for pre-existing reinforcement. We consider that making it clear that the methodology is in compliance with the E(CC)R will better achieve relevant objective (a) - compliance with the methodology will facilitate the discharge by the licensee of the obligations imposed on it under the Electricity Act 1989 and by its licence.

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 or on 020 7901 7483 if you have any queries in relation to the issues raised in this letter.

³

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=508&refer=Networks/ElecDist/Policy/DistChrgMods>

⁴ The Electricity (Connection Charges) Regulations

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Rachel Fletcher', is positioned above a light grey rectangular box.

Rachel Fletcher

Director, Distribution

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