



The Company Secretary
Scottish Hydro Electric Power
Distribution plc
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*Promoting choice and
value for all customers*

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Date: 6 March 2009

cc: Malcolm J Burns (by email only)

Dear Company Secretary,

**Decision in relation to Scottish Hydro Electric Power Distribution plc proposal:
'Modification to Connection Charging Methodology' (SHEPD/08/002b)**

On 26 February 2009, SSE Power Distribution ("SSE") re-submitted its proposal to the Gas and Electricity Markets Authority ("the Authority")¹ on behalf of Scottish Hydro Electric Power Distribution plc ("SHEPD") to modify its Connection Charging Methodology Statement.

SHEPD has proposed to modify its Connection Charging Methodology Statement, required under Standard Licence Condition ("SLC") 13 of the Electricity Distribution Licence ("the Licence"), to reflect recent industry changes, such as the introduction of the Energy Ombudsman, and other minor housekeeping changes.

Having considered 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

In accordance with SLC 13, SHEPD 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. SHEPD must review its methodologies at least annually and bring forward any proposals to modify its methodologies that it considers will better achieve the relevant 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.

SHEPD has proposed to modify its Connection Charging Methodology to reflect recent industry changes (such as the introduction of the Energy Ombudsman, changes made to the SLCs of the Licence following Ofgem's review of the Electricity Distribution Licence (including changes to the numbering in the Licence), the implementation of the Distribution Connection and Use of System Agreement ("DCUSA") and to make other housekeeping changes.

This modification proposal is one of two re-submitted by SSE on 26 February 2009. SSE also submitted a similar proposal in relation to its Southern Electric Power Distribution network business on the same day. Each proposal has been considered on an individual basis.

The modification proposal

SHEPD's proposals to modify its Connection Charging Methodology Statement are summarised below:

- Changes to reflect the introduction of the Energy Ombudsman in relation to disputes following the disbanding of energywatch;
- Changes to reflect amendments that were made to the SLCs of the Licence following Ofgem's review of the Electricity Distribution Licence;
- Changes following the implementation of DCUSA;
- Changes to industry arrangements and definitions to reflect modifications made by SHEPD to its internet site;
- Changes to update a number of definitions and bring them in line with other industry definitions;
- Changes to express a number of methodology items more clearly to readers, including the removal of superfluous sentences; and
- Changes to correct typographical errors.

Ofgem's decision

We have analysed this proposal by taking into account both the relevant objectives and our wider statutory duties. We consider that the proposed modifications better achieve relevant objectives (a) and (d) by properly taking into account recent industry changes and changes made to the SLCs of the Licence, as well as making SHEPD's Connection Charging Methodology Statement clearer to readers. To that end we welcome the changes that are being proposed as the Connection Charging Methodology Statement needs to be clear so it is fully understood by users.

Consequently, we have decided **not to veto** SHEPD's proposed modifications to its Connection Charging Methodology Statement. We would encourage all DNOs to review their methodology statements to reflect the introduction of the Energy Ombudsman and to ensure that the process for handling disputes is made clear to customers more generally.

The Authority considers that items 25, 26, 29 and 30 in SHEPD's proposal are not modifications to the Connection Charging Methodology, as these relate to changes to indicative prices. As such, the Authority's decision not to veto these proposed modifications do not relate to these changes.

Please contact Dora Guzeleva at dora.guzeleva@ofgem.gov.uk or on 020 7901 7451 if you have any queries in relation to the issues raised in this letter.

Yours faithfully,

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

Rachel Fletcher

Director, Distribution

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