

Electricity Distribution  
Avonbank  
Feeder Road  
Bristol  
BS2 0TB  
[syeo@nationalgrid.co.uk](mailto:syeo@nationalgrid.co.uk)

Andrew Malley  
Head of Distribution and Residual Charging  
Energy Systems Management & Security  
Ofgem  
10 South Colonnade  
Canary Wharf  
London E14 4PU

15<sup>th</sup> January 2024

Dear Andrew,

**Re: National Grid Electricity Distribution (East Midlands) plc Derogation Request SLC 13B.**

I am writing on behalf of National Grid Electricity Distribution (East Midlands) plc ('NGED') to request a Derogation against Standard Licence Condition 13B.EHV Distribution Charging Methodology ('EDCM') to enable National Grid Electricity Distribution (East Midlands) plc to publish charges for 2025/26 outside of the EDCM charging methodology.

Due to a lower allowed revenue in 2025/26 and a small increase in forward looking charges, the residual for East Midlands is negative which in the EDCM model produces negative fixed charges for all EDCM customers. Following NGED's submission of proposed charges to OFGEM on 21 December 2023, OFGEM requested NGED not to publish the EDCM charges for East Midlands and to propose an alternative set of charges which avoided negative fixed charges.

NGED presented an alternative proposed solution to you on 9 January, 2024, which you agreed with in principle. Please see Annex 1 for the detail. However, a short summary of this is to remove the residual from the fixed charges, aggregate the residual that had been applied for each band, use this to calculate a residual capacity charge by band and add the residual Capacity charges by band to the original capacity charge.

Note: As this was negative residual leading to some negative fixed charges, the capacity adjustment is negative.

The benefit in applying the adjustment this way is that the proportion of residual revenue by band will remain the same, for example the sum of the residual applied to the Band 4 customers using a fixed charge will still be applied to the band 4 customers using a capacity charge. The same applies to the band 3, 2 and 1 customers. The Non Final Demand customers will remain unchanged from the original EDCM. There will be no negative fixed or capacity charges.

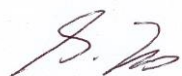
Due to rounding the effect of this change, the EDCM revenue will increase by £2,225 which is immaterial and the impact on the CDCM fixed charges is negligible. The largest absolute change is 0.22 p/MPAN/Day, which is equivalent to approx. 0.005% difference for this tariff component for this group. We note in your email sent on 11 January 2024 that you agree with the approach not to change the CDCM charges from the draft ones published on 22 December 2023. This is a benefit in that it will enable IDNOs to proceed with their charge setting and also mean that National Grid

Electricity Distribution will not need to seek a derogation on setting prices outside the CDCM as the Draft CDCM prices were set using the authorised methodology. For transparency, we have included our analysis on the CDCM changes which **have not** been applied in Annex 2.

The issue experienced by National Grid Electricity Distribution (East Midlands) plc is different from that for which resulted in OFGEM's Derogation given to SSE for 2025/26 EDCM charges which was predominantly caused by high forward looking charges. The NGED issue is predominantly due to a drop in allowed revenue.

If I could therefore request you provide the necessary Derogation as soon as possible to enable us to publish the revised 2025/26 EDCM charges for East Midlands. Should you have any queries in relation to our Derogation request, please do not hesitate to contact me.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'S. Yeo', is positioned above the printed name.

**SIMON YEO**  
Income Manager  
National Grid Electricity Distribution

## Annex 1

### EMEB Negative Residual Issue Proposed Solution

Issue: Due to a lower allowed revenue in 2025/26 and a small increase in forward looking charges, the residual for East Midlands is negative which in the EDCM model produces negative fixed charges.

Proposed Solution

The proposed solution outside the EDCM is to:

- calculate the total negative residual amounts by band,
- convert each total negative residual amount by band into a negative capacity charge (pence/kVA/day) to be applied by band,
- add the negative capacity charge (pence/kVA/day) by band to the existing capacity charge (pence/kVA/day),
- remove the current fixed negative residual charge amount from the Fixed Charge

The process of implementing the solution is as follows:

1. The total negative residual amount is approximately £679,005.62. The aggregate amount is then decomposed into individual amounts by band. The aggregate capacity of all customers in each band was calculated and is presented below:

<b>Total Residual Fixed Charges</b>	<b>-£679,005.62</b>	
Residual Revenue by Band	<b>Residual Amount by Band (£)</b>	<b>Total Capacity by Band (kVA)</b>
Band 1	-50,567.75	92,194
Band 2	-179,687.42	167,800
Band 3	-93,746.51	101,600
Band 4	-355,003.94	424,000

2. The residual amounts for each band were initially converted to Annual Capacity Charge (£/kVA/year) by simply dividing the residual amount for each of the bands by the total capacity for each band. The resulting capacity charge per annum is shown below:

<b>Capacity Charge by Band (£/kVA/year)</b>	
Band 1	-0.548
Band 2	-1.071
Band 3	-0.923
Band 4	-0.837

3. The annual capacity charge by band was then broken down to daily capacity charge by multiplying each amount by 100 to convert it to pence and dividing by 365 to give the correct capacity charge (p/kVA/day)

Capacity Charge by Band (pence/kVA/day)	Rounded Capacity Charge (p/kVA/day)
Band 1	-0.15
Band 2	-0.29
Band 3	-0.25
Band 4	-0.23

4. Finally, due to rounding to two decimal places, the total revenue reduction recovered by EDCM charges increases by **£2,225.10** which is so small that it would not be necessary to change the current CDCM charges.

## Annex 2

### Effect of adjusting the CDCM by £2,225.10 on All The Way Tariffs

	Original CDCM draft prices	CDCM prices with the negative 2,255.10 added in	Difference
	Fixed charge p/MPAN/day	Fixed charge p/MPAN/day	Fixed charge p/MPAN/day
All the Way			
Non-Domestic Aggregated or CT Band 4	36.93	36.92	-0.01
LV Site Specific Band 1	61.19	61.18	-0.01
LV Site Specific Band 3	137.64	137.63	-0.01
LV Site Specific Band 4	270.96	270.94	-0.02
LV Sub Site Specific Band 2	89.21	89.2	-0.01
LV Sub Site Specific Band 4	267.83	267.82	-0.01
HV Site Specific Band 1	340.7	340.69	-0.01
HV Site Specific Band 2	793.33	793.29	-0.04
HV Site Specific Band 3	1624.55	1624.46	-0.09
HV Site Specific Band 4		4161.66	-0.22

Note: This table is for transparency only and these changes have not been applied to the Draft CDCMs.