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to customers*

The Company Secretary  
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Cc Joe Hart, Pat Wormald and Andy  
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30 March 2005

Dear Sir/Madam,

### **Use of system charging methodology: conditional approval**

On 11 February 2005 the Authority issued its decision to conditionally approve CE Electric UK's (CE) use of system charging methodologies for Northern Electric Distribution Limited (NEDL) and Yorkshire Electricity Distribution Plc (YEDL)<sup>1</sup> in accordance with standard licence condition (SLC) 4(9), subject to the following conditions:

- a. Review of the use of system charging model and development of an alternative approach by 1 April 2006;
- b. Revision of the approach on the transition of EHV charges to set out:
  - i. a transition for EHV charges effective from 1 April 2005 in the methodology (by 1 April 2005); and
  - ii. a transition (if any) for EHV charges effective from 1 April 2006 (by October 2005).

### *CE action*

On 30 March 2005 CE submitted redrafted statements of the UoS charging methodology for NEDL and YEDL. These set out a new policy on the treatment of EHV demand charges moving to a new methodology from 1 April 2005. Where this results in decreases in charges, the new charges will apply at once. Where the change in methodology causes an increase in charges, this will be capped for 1 April 2005 at 15 percent.

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<sup>1</sup> This decision document also set out the Authority's decision to approve CE's connection charging methodology without conditions.

### *Authority conclusion*

Ofgem consulted on the issue of EHV transitions in December 2004<sup>2</sup>, and subsequently reached a decision on this matter (published on 11 February 2005<sup>3</sup>). In light of this decision and the reasons set out in the decision document, the Authority considers CE's transition strategy for April 2005 to be appropriate, and approves this redrafted section of the methodology as meeting part (i) of condition (b) above.

### *Outstanding conditions*

The Authority notes that part (ii) of condition (b) requires CE to set out a strategy for 2006 charges by October 2005, and this part of the condition stands, pending further action by CE and further consideration of this issue by Ofgem and the industry.

On 13 January 2005, CE accepted the condition on review of the demand charging model. This condition on the UoS charging methodology stands, pending further action on this from CE.

The Authority expects CE to provide Ofgem with updates on progress in meeting the outstanding conditions in advance of their deadlines. Any queries about this decision or the remaining condition should be directed to Mark Cox on 020 7901 7458, or [mark.cox@ofgem.gov.uk](mailto:mark.cox@ofgem.gov.uk).

Yours sincerely,

Martin Crouch  
Director, Distribution

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<sup>2</sup> Open letter consultation (284/04) available from  
<http://www.ofgem.gov.uk/ofgem/work/index.jsp?section=/areasofwork/distributioncharges>.

<sup>3</sup> Decision document and responses (35/05) available from  
<http://www.ofgem.gov.uk/ofgem/work/index.jsp?section=/areasofwork/distributioncharges>