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The Company Secretary
Central Networks East plc
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cc: Andrew Neves (by email only)

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22 March 2005

Dear Sir/Madam,

Use of system charging methodology: conditional approval

On 11 February 2005 the Authority issued its decision to conditionally approve Central Networks East's (CN) use of system charging methodology¹ in accordance with standard licence condition (SLC) 4(9), subject to the following conditions:

- a. Development and implementation of a new charging model by 1 April 2006; and
- b. Provision of a cost reflective policy for dealing with exceeding agreed capacities.

This letter sets out the Authority's decision on the completion of condition (b) above, following action taken by CN to deal with this issue.

CN action

On 17 February 2005 CN submitted a redrafted statement of the use of system charging methodology. This stated that excess capacity charges would be applied at the same level as the normal capacity charge rate. CN has also amended its SLC4A use of system charging statement to reflect this policy.

Authority conclusion

The Authority considers that the new policy addresses its concerns that charging for excess capacity at three times the normal rate had not been shown to reflect the actual cost of excess demand on the system, and that the amended policy, in the light of contractual requirements, meets the licence objectives.

¹ This decision document also set out the Authority's decision to approve CN's connection charging methodology without conditions.

The Authority therefore approves the reworded policy as meeting condition (b) above, and this condition will no longer apply to the use of system charging methodology.

Outstanding condition

On 13 January 2005, CN accepted the condition to implement a new charging model. This condition on the UoS charging methodology stands, pending further action on this from CN. The Authority expects CN to provide regular updates to Ofgem to illustrate progress on the completion of this condition in advance of April 2006.

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.

Yours sincerely,

Martin Crouch
Director, Distribution