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The Company Secretary
EDF Energy Networks Plc
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cc: Jonathan Purdy (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 EDF Energy's (EDF) use of system (UoS) charging methodology¹ for its Eastern (EPN), London (LPN) and Southern (SPN) areas in accordance with standard licence condition (SLC) 4(9), subject to the following conditions:

- a. Reassessment of the use of replacement costs as an input to the demand UoS model, and the provision of a more cost reflective model by 1 April 2006;
- b. Completion of the transition of Non Half Hourly charges to a common demand methodology by 1 April 2006 or the next change in charges, whichever is sooner; and
- c. Review of the policy on the transition of demand EHV charges to a new methodology by 1 April 2005 to set out the strategy (if any) for:
 - i. the transition of EHV charges effective from 1 April 2005 in the methodology (by 1 April 2005); and
 - ii. the transition (if any) for EHV charges effective from 1 April 2006 (by October 2005).

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

EDF action

The condition (c) above was imposed on EDF in light of the fact that the transition strategy for charges other than at LV (a restriction of 10 percent) proposed in early drafts of the methodology had been removed. On 18 February 2005 EDF submitted a redrafted statement of the UoS charging methodology, detailing a new policy on the treatment of EHV demand charges from 1 April 2005. This set out that the application of the methodology might cause variation in

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

charges, and outlined the Authority's decision on this matter (see below). The methodology states that EDF's EHV charges from 1 April 2005 will comply with the Authority's proposal.

Authority conclusion

Ofgem consulted on the issue of EHV transitions in December 2004², and subsequently reached a decision on this matter (published on 11 February 2005³).

The Authority agrees with EDF's intention to charge in line with its decision on EHV charge transition, and approves this redrafted section of the methodology as meeting part (i) of condition (c) above. The Authority notes that part (ii) requires EDF to set out a strategy for 2006 charges by October 2005, and this part of the condition stands, pending further action by EDF and further consideration of this issue by Ofgem and the industry.

Outstanding conditions

In addition to the requirement to further detail the EHV demand transition by October 2005, the two remaining conditions (a) and (b) will continue to apply to the methodology. The Authority expects EDF to provide Ofgem with updates on progress in meeting these outstanding conditions in advance of their deadlines. Any queries about this decision or the completion of the outstanding conditions should be directed to Mark Cox on 020 7901 7458, mark.cox@ofgem.gov.uk.

Yours sincerely,

Martin Crouch
Director, Distribution

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

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