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to customers*

The Company Secretary
Scottish Hydro-Electric Power
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cc: Aileen Wilson and Max Lalli (by
email only)

24 March 2005

Dear Sir/Madam,

Use of system charging methodology: conditional approval

On 11 February 2005 the Authority issued its decision to conditionally approve Scottish and Southern Energy's (SSE) methodologies for Scottish Hydro-Electric Power Distribution Limited's (SHEPD) and Southern Electric Power Distribution Plc's (SEPD) use of system (UoS) charging methodology¹ in accordance with standard licence condition (SLC) 4(9), subject to the following condition:

- a. Clarification of SSE's demand model descriptions and review of the treatment of trends in asset costs.

SSE action

Following discussions between SSE and Ofgem, SSE submitted redrafted statements of the UoS charging methodology for SHEPD and SEPD on 24 March 2005. These included an amended flowchart which clarified the process by which the demand model is run each year. SSE have clarified that asset prices and trends are used to produce costs at each voltage level, and the simulation is updated each year. After yardstick tariffs are produced, a scaling factor is applied to ensure that the forecast revenue matches the allowed revenue, and then these tariffs are published.

Authority conclusion

The Authority considers that the reworded flowchart clarifies the charge calculation process. The Authority also notes that SSE have confirmed that no tariff smoothing or adjustment of the yardstick prices for the purpose of avoiding price disturbance is carried out, and that the only adjustment of charges produced by their model is to ensure that the regulated revenue is met,

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

and that all charges will be calculated in accordance with the methodology. This action meets the condition set out in the February decision document.

Outstanding actions

There are no outstanding actions on SHEPD's UoS charging methodology, and this document is now approved in full. SSE should note the licence requirement to continue reviewing both the connections and UoS charging methodology statements from now onwards, both as part of the ongoing Structure of electricity distribution charges review, and as part of the licence obligation to propose such changes as would help the methodologies better meet the relevant objectives.

Any queries about this decision should be directed to Mark Cox on 020 7901 7458, or mark.cox@ofgem.gov.uk.

Yours sincerely,

Martin Crouch
Director, Distribution