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The Company Secretary
Western Power Distribution (South
Wales) Plc
Avonbank
Feeder Road
Bristol
BS2 0TB

Our Ref: RBA/DPC/SOC/26/1
Direct Dial: 020 7901 7255
Email: martin.crouch@ofgem.gov.uk

cc: Nigel Turvey (by email only)

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 Western Power Distribution South Wales' (WPD) use of system charging methodology¹ in accordance with standard licence condition (SLC) 4(9), subject to the following conditions:

- a. Removal of the facility to smooth tariffs within the demand use of system methodology by 1 April 2005;
- 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).

This letter sets out the Authority's decision on the completion of conditions (a) and (b)(i) following action taken by WPD to deal with these issues.

WPD action

On 18 February 2005 WPD submitted a redrafted statement of the use of system charging methodology. WPD have removed references to applying judgements to tariff scaling from the description of the demand use of system model.

The redrafted statement also sets out a new policy on the treatment of EHV demand charges from 1 April 2005. Decreases in charges will apply at once, and increases will be capped at 15 percent. No mention is made of arrangements for April 2006.

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

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). In light of this decision and the reasons set out in the decision document, the Authority considers WPD'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.

The Authority notes that part (ii) requires WPD to set out a strategy for 2006 charges by October 2005, and this part of the condition stands, pending further action by WPD and further consideration of this issue by Ofgem and the industry. The Authority expects WPD to provide Ofgem with updates on progress in meeting this outstanding condition in advance of October.

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

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>