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to customers*

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cc: Simon Brooke (by email only)

15 November 2005

Dear Sir/Madam,

Use of system charging methodology: conditional approval – EHV transition¹

On 11 February 2005 the Authority issued its decision to conditionally approve United Utilities' (UU) use of system (UoS) charging methodology in accordance with Standard licence condition (SLC) 4(9), subject to the following condition requiring UU to review its approach and set out its:

- strategy (if any) for the transition of EHV charges effective from 1 April 2005 in its methodology by 1 April 2005 and the transitional approach (if any) for EHV charges effective from 1 April 2006 by October 2005.

In its subsequent letter on 22 April 2005, the Authority set out that the first part of this condition had been met and reiterated that the latter part of the condition relating to 1 April 2006 stood, pending further action by UU and further consideration of this issue by Ofgem and the industry.

Ofgem open letter

Ofgem published an open letter on the EHV transition applicable from 1 April 2006 on 19 October 2005². This document set out that Ofgem considered that EHV charges should be increased in line with the retail price index (RPI).

Following publication of Ofgem's open letter UU submitted a proposal on 28 October 2005. This proposal sets out that any charge increase for EHV demand customers be increased by the movement in RPI, adjusted for any under or over recovery in prior years, in line with UU's price control.

Authority conclusion

The Authority considers that UU has determined the transition of EHV charges for 1 April 2006 in a suitable manner. The Authority considers that UU has met this condition.

¹ This letter is only in reference to the EHV transition issue. Decisions on other UU proposals will be distributed separately.

² '2006-07 electricity distribution use of system EHV charges' – Ofgem document reference 227/05

Yours sincerely,

Martin Crouch
Director, Distribution