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cc: Andrew Neves (by email only)

24 November 2005

Dear Sir/Madam,

### **Use of system charging methodology: conditional approval – charging model<sup>1</sup>**

On 11 February 2005 the Authority issued its decision to approve Central Networks' (CN's) Use of System (UoS) charging methodology for its CN(West) and CN(East) areas in accordance with standard licence condition (SLC) 4(9), subject to two conditions. These two conditions required CN to:

- Develop and implement a new charging methodology by 1 April 2006; and
- Provide a cost reflective policy for dealing with exceeding agreed capacities.

Following a re-submission by CN of its charging methodology to Ofgem on 17 February 2005, the Authority, in its subsequent letter on 22 March 2005, set out that the second condition had been met. Therefore this letter deals solely with the remaining condition to develop and implement a new charging methodology by 1 April 2006.

#### *CN's Submission*

On 4 November 2005 CN wrote to Ofgem seeking approval from the Authority that it had addressed this final condition. Following a review of the UoS charging methodology CN proposed to move away from their 'regulatory reflective' approach and implement a model based on a distribution reinforcement model. This new model apportions costs from extending the network between customers by reference to their contribution to required capacity.

CN have also proposed to rationalise some of their tariff groups and reflect a greater degree of their costs to half hourly users through capacity charges. These changes are intended to better reflect network costs to users.

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<sup>1</sup> This letter is only in reference to the charging model condition as detailed above. Decisions on CN's proposed charging modifications will be considered and distributed separately.

This approach is proposed to apply to both CN's East and West areas and the UoS charging methodology statement has been updated accordingly.

*Authority conclusion*

The Authority considers that CN's revised approach has now established a more transparent charging methodology that derives charges which reflect the costs of extending the distribution system.

The Authority considers that CN has now met this outstanding condition, and the UoS charging methodology is approved.

Yours sincerely,



Martin Crouch  
Director, Distribution