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to customers*

The Company Secretary
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cc: Jonathan Purdy (by email only)

24 November 2005

Dear Sir/Madam,

Use of system charging methodology: conditional approval – charging model¹

On 11 February 2005 the Authority issued its decision to approve EDF Energy's use of system (UoS) charging methodology for its Eastern (EPN), London (LPN) and Southern (SPN) areas in accordance with standard licence condition (SLC) 4(9), subject to various conditions. Amongst these were the following two conditions requiring EDF Energy to:

- Reassess 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.
- Complete the transition of Non Half Hourly (NHH) charges to a common demand methodology by 1 April 2006 or the next change in charges, whichever is sooner.

EDF Energy's Submission

On 29 September 2005 EDF Energy wrote to Ofgem seeking approval from the Authority that it had addressed these two conditions. Following a review of the UoS charging methodology EDF Energy proposed to revise their UoS methodology to use reinforcement costs exclusively as an input to the demand UoS model to better reflect the development costs of extending the distribution network.

EDF Energy has also now completed the transition of small business users line loss factors classes (LLFCs) to new LLFCs where the existing LLFCs were shared with domestic users. This change will enable EDF Energy to set different tariff prices to these customers allowing more cost reflective charges.

This approach is proposed to apply to both EDF Energy's EPN, LPN and SPN areas and the UoS methodology statement has now been updated to reflect both these changes.

¹ The Authority issued a separate letter concerning the transition of EHV charges for 1 April 2006 on 15 November 2005.

Authority conclusion

The Authority considers that EDF Energy has now established a cost reflective charging methodology that establishes charges which reflect the costs of extending the distribution system. By amending the LLFCs EDF Energy is now able to charge domestic and non domestic users separately enabling more cost reflective prices.

The Authority considers that EDF Energy has now met these two outstanding conditions, and the UoS charging methodology is approved.

Yours sincerely,



Martin Crouch
Director, Distribution