

Your Ref

Our Ref

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Dear Mark

Updated proposals for CE Electric's Use of System Charging Methodology

I am writing, on behalf of CE Electric UK Funding Company (CE), which is the UK parent company of Northern Electric Distribution Ltd (NEDL) and Yorkshire Electricity Distribution plc (YEDL). In December 2005 the Authority approved the use of system charging methodologies for NEDL and YEDL subject to the following conditions:

- NEDL [YEDL] should progress with urgency the development of a revised charging model based around the comments and views provided in the Authority's letter, dated 20 December 2005, to ensure that any revised model achieves the relevant objectives;
- Due to the extension of timescales for completion of this condition CE should also consider other developments in the industry, such as the studies into electricity distribution charging models during the course of this year, when considering a revised model; and
- NEDL [YEDL] should develop a revised UoS charging model to be approved and in place by 1 April 2007.

Charges applicable from 1 April 2006 were set using the current approach, which is published on our website. Since the publication of these charges we have been working with Ofgem to develop a revised methodology for submission which seeks to address these areas, whilst also taking into account the ongoing work being undertaken to develop an enduring industry solution.

Attached to this letter is a document explaining our new proposal for calculating LV and HV demand charges which, subject to approval, we intend to implement from November 2006.

CE ELECTRIC UK FUNDING COMPANY

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The document provides supporting evidence including impact and sensitivity analysis; illustrative charges; details of why this approach better meets our licence requirements; and how it provides a firm basis for the removal of the conditions on our methodology.

Appendix 7 of the document contains the revised wording for section 3 “Methodology for calculating general LV and HV demand charges” of our existing methodology statements.

The new methodology has undergone a comprehensive independent review and validation by external consultants with a wealth of relevant industry experience and detailed knowledge in the charging arena. We believe that their report, along with the other evidence detailed in the attached proposals document, provides a firm basis for the removal of the conditions on our methodology.

Should you have any queries, please contact me on the above number.

Yours sincerely

Harvey Jones