



The Company Secretary
Northern Electric Distribution Limited
98 Aketon Road
Castleford
WF10 5DS

*Promoting choice and
value for all customers*

cc: Andy Jenkins (by email only)
Harvey Jones (by email only)

Your Ref: 0004/2006
Our Ref: RBA/DPC/SOC
Direct Dial: 020 7901 7255

17 November 2006

Dear Colleague,

Decision in relation to modification proposal 0004/2006 to the statement of use of system charging methodology: Clarification of the contractual arrangements

On 30 October 2006 CE Electric UK plc submitted a proposal, reference 0004/2006, to the Gas and Electricity Markets Authority (the 'Authority')¹ to modify Northern Electric Distribution Limited's (NEDL's) statement of Use of System (UoS) charging methodology.

The proposal modifies the statement of UoS charging methodology to take account of the new contractual arrangements following the designation and implementation of the Distribution Connection and Use of System Agreement (DCUSA), and to recognise the emergence of Independent Distribution Network Operators (IDNOs).

Having carefully considered the issues raised in the proposal, the Authority has decided not to veto the proposed modification.

This letter sets out the background to the modification proposal, explains briefly the proposed changes, and sets out the reasons for the Authority's decision.

Background

NEDL has licence obligations² to have in place as of 1 April 2005 three charging statements: the statement of UoS charging methodology, the statement of UoS charges and the connection charging methodology. The statement of UoS charging methodology outlines the method by which UoS charges are calculated. NEDL has a requirement to keep the methodology under review and bring forward proposals to modify the methodology that it considers better facilitate achievement of the relevant objectives³.

¹ Ofgem is the office of the Authority. The terms 'Ofgem' and the 'Authority' are used interchangeably in this letter.

² Standard Licence Conditions 4-4B

³ The relevant objectives for the UoS charging methodology, as contained in paragraph 3 of standard licence condition 4 of NEDL's distribution licence are:

(a) that compliance with the UoS charging methodology facilitates the discharge by the licensee of the obligations imposed on it under the Electricity Act 1989 and by this licence;

NEDL Modification Proposal

NEDL proposes to modify the statement of UoS charging methodology to take account of recent market developments, specifically the designation and implementation of the DCUSA and the emergence of IDNOs. NEDL considers that the proposed changes provide greater clarity of the contractual arrangements with suppliers and other users of its distribution network.

NEDL also propose some minor housekeeping modifications.

The Authority's decision

In keeping with its statutory principal objective and general duties, the Authority has considered the proposal against the relevant objectives of the licence condition. The Authority considers that the proposed change to the statement of UoS charging methodology better achieves the relevant objectives by providing greater clarity, particularly in relation to contractual arrangements.

The Authority has decided not to veto this modification.

Please contact Cherie Davis on 020 7901 7210 if you have any queries in relation to the issues raised in this letter.

Yours faithfully,



Martin Crouch
Director, Distribution

Authorised for that purpose by the Authority

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- (b) that compliance with the UoS charging methodology facilitates competition in generation and supply of electricity, and does not restrict, distort, or prevent competition in the transmission or distribution of electricity;
 - (c) that compliance with the UoS charging methodology results in charges which reflect, as far as is reasonably practicable (taking account of implementation costs), the costs incurred by the licensee in its distribution business; and
 - (d) that, so far as is consistent with sub-paragraphs (a), (b), and (c), the UoS charging methodology, as far as reasonably practicable, properly takes account of developments in the licensee's distribution business.