

The Company Secretary
Northern Electric Distribution Limited
98 Aketon Road
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*Promoting choice and
value for all customers*

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

Your Ref: 0005/2006
Our Ref: RBA/DPC/SOC
Direct Dial: 020 7901 7255

15 November 2006

Dear Colleague,

Decision in relation to modification proposal 0005/2006 to the statement of use of system charging methodology: Revised EHV migration

On 30 October 2006 CE Electric UK plc submitted a proposal, reference 0005/2006, 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.

NEDL proposes to remove the migration strategy applicable to EHV demand customers. It is proposed that from April 2007 the charges for all EHV demand customers will match the charge generated from the EHV yardstick model.

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;
- (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

In April 2005, NEDL implemented a new UoS charging model to calculate charges for EHV customers. On 19 October 2005 Ofgem published an open letter on the EHV transition applicable from 1 April 2006⁴. This document set out that Ofgem considered that EHV charges for 2006/07 should be increased in line with the retail price index (RPI).

On 7 December 2005, Ofgem approved NEDL's proposal that for EHV demand customers, who were at that time not being charged based on the charging model yardstick values, would have their charges for the 2006/07 increased by the movement in RPI.

Ofgem's open letter also set out that it was expected that charging methodologies would be applied in full, with no transitional relief, from no later than April 2007.

NEDL Modification Proposal

NEDL proposes that from April 2007 the charges for all EHV demand customers will match the charge generated from the EHV yardstick model. NEDL consider that this proposal would better meet the relevant licence objectives as it removes a known cross-subsidy and provides greater transparency. NEDL proposes to modify the statement of UoS charging methodology to remove the reference to the EHV migration strategy that applied from April 2006.

In the NEDL distribution services area, of 34 EHV sites there are four affected sites with increases of between 8 and 183 percent. NEDL undertook a consultation earlier in 2006 and have written to EHV customers and their suppliers to inform them of the likely impact of removing the transition. Only a small number of informal enquiries were received with no substantial issues identified.

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 meets the relevant objectives as it improves the cost reflectivity of UoS charges.

The Authority considers that whilst the impact on UoS charges for some customers is likely to be significant, CE Electric has consulted in a timely manner with affected parties about the likely impact.

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

(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.

⁴ 2006-07 Electricity distribution use of system EHV charges, 19 October 2005, 227/05