

The Company Secretary
EDF Energy Networks plc
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*Promoting choice and
value for all customers*

cc: Oliver Day (by email only)

Your Ref: UoS Mod 07
Our Ref: RBA/DPC/SOC
Direct Dial: 020 7901 7255

21 December 2006

Dear Colleague,

Decision in relation to modification proposal UoS Mod 07 to the statement of use of system charging methodology: Disturbance Constraints on Generation Use of System Charges

On 14 December 2006 EDF Energy Networks plc ('EDF Energy') submitted a proposal, reference UoS Mod 07, to the Gas and Electricity Markets Authority (the 'Authority')¹ to modify EDF Energy's statement of Use of System (UoS) charging methodology.

EDF Energy proposes to modify the constraining regime for annual changes in generation UoS charge. It is proposed to retain the current 10% constraint for upward changes in charges and to relax the constraint for downward changes, so that charge reductions can be passed through immediately to customers. It is proposed also to allow the upward constraint to be set at £1.00 per annum where the current charge is zero.

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

EDF Energy 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. EDF Energy 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 YEDL'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;

In April 2005, EDF Energy implemented a new UoS charging model. To avoid excessive unpredictability of UoS charges, it was established that the annual change in generation charges would be restricted to no more than 10% in any year between April 2005 and April 2010, other than by agreement with the individual generator.

EDF Energy Modification Proposal

EDF Energy proposes to retain the current 10% constraint for upward changes in charges and to relax the constraint for downward changes, so that charge reductions can be passed through immediately to customers. It also proposes to allow the upward constraint to be set at £1.00 per annum where the current charge is zero.

EDF Energy considers that this proposal does not alter the principles or methods within the approved charging methodology. EDFE states that it would better meet the relevant licence objectives as it allows charge reductions to be fully passed on to customers, whilst preserving protection against upwards disturbances in the developing market for distributed generation. EDF Energy proposes to modify the wording of the statement of use of system charging methodology to implement an asymmetric regime of constraints for annual changes in generation UoS charge.

EDF Energy submitted data within the modification proposal setting out the impact of the proposed change on EHV customer charges. EDF Energy states that tariffs resulting from the April 2007 tariff review indicate that setting the generation UoS charges equal to zero is appropriate for G83 compliant microgenerators and other small non-half hourly metered generators.

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 in terms of cost reflectivity of UoS charges. It also enables EDF Energy to reflect immediately into generation UoS charges the latest forward looking cost forecasts prepared in the context of the April 2007 tariff review: in this sense, the proposed change better takes into account the developments in the Licensee's business. The Authority also considers that this proposal promotes competition in distributed generation by removing currently inappropriate generation UoS charges on microgeneration whilst providing predictability of upward changes in charges. The Authority considers that the proposed change facilitates achievement of the relevant objectives by allowing EDF Energy to better discharge its duties under the licence.

The Authority has decided not to veto this modification.

Please contact Alberto Prandini on 020 7901 7281 if you have any queries in relation to the issues raised in this letter.

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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.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'M. Crouch', written on a light-colored rectangular background.

Martin Crouch

Director, Distribution

Signed on behalf of the Authority and authorised for that purpose by the Authority