

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

cc: Oliver Day (by email only)

Your Ref: UoS Mod 09
Our Ref: RBA/DPC/SOC
Direct Dial: 020 7901 7255

19 February 2007

Dear Colleague,

Decision in relation to modification proposal UoS Mod 09 to the statement of use of system charging methodology: Transition of EHV site specific charges

On 24 January 2007 EDF Energy Networks plc ('EDF Energy') submitted a proposal, reference UoS Mod 09, 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 propose to extend the existing transitional arrangements for EHV site specific charges beyond April 2007. It is proposed that the annual increase from the April 2005 charges for site specific EHV charges to be in line with the retail price index (RPI). It is proposed also to remove the transitional arrangements when the work on the longer term model has been concluded.

Having carefully considered the issues raised in the proposal, the Authority has decided 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 have 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 have a requirement to keep the methodology under review and bring forward proposals to modify the methodology that they consider 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 EDF Energy'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 revised the 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 RPI.

On 15 November 2005, Ofgem approved EDF Energy's proposal that EHV customers 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.

EDF Energy Modification Proposal

EDF Energy propose to extend the transitional arrangements that provide for annual increase of EHV site specific charges in line with the movement in RPI; they also propose to fully reflect the results of any new charging model into charges when work on the longer term models has been completed.

EDF Energy propose to modify the statement of UoS charging methodology to reflect the continuation of transitional arrangements and to remove the reference to the deadline of April 2007 for any interim strategy for EHV charging. EDF Energy consider that this proposal does not alter the principles or methods within the approved charging methodology. EDF Energy state that it would better meet the relevant licence objectives as it removes an ambiguity in the wording and continues the transitional arrangements which received Ofgem approval.

EDF have already set indicative charges for 2007/8 on the basis of an RPI increase. EDF Energy has told us that they will set final charges on this basis whether or not the Authority vetoes this modification proposal.

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 does not better meet the relevant objectives in terms of cost reflectivity of UoS charges.

It is the Authority's view that the proposed revised wording of the statement creates scope for continuing the transitional arrangements in future years until the longer-term charging model has been fully developed. This is not in line with Ofgem's expectations or decision letter of October 2005. The continuation of implicit cross-subsidies across customers weakens the cost-reflectivity of the methodology.

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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.

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

The Authority acknowledges that the reference to April 2007 in the wording of the methodology may create confusion, and hence expects EDF Energy to address the issue in the near future.

The Authority has decided 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.

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