



Jonathan Ashcroft  
Regulation Manager  
Central Networks  
Pegasus Business Park  
Castle Donington  
Derbyshire  
DE74 2TU

*Promoting choice and  
value for all customers*

Direct Dial: 020 7901 7256  
Email: Philip.Davies@ofgem.gov.uk

Date: 2<sup>nd</sup> May 2007

Dear Jonathan,

**ELECTRICITY ACT 1989: NOTICE OF DETERMINATION OF ADJUSTMENT FACTOR ( $AF_t$ ) UNDER SPECIAL CONDITION F1 OF THE DISTRIBUTION LICENCES OF CN EAST AND CN WEST**

On 11<sup>th</sup> April 2007 the Gas and Electricity Markets Authority ("the Authority") received notification from Central Networks plc of its intention to apply an adjustment factor ( $AF_t$ ) to the price controls on legacy basic meter asset provision, as set out in Special Condition F1, Part B of the distribution licences of Central Networks East plc and Central Networks West plc ("the licensees"). The adjustment factor is intended to recover a proportion of asset stranding costs for token prepayment meters within the licensees' distribution services areas.

Following consideration of this notification, the values of  $AF_t$  for this adjustment have been determined as follows:

- for **Central Networks East plc**, the  $AF_t$  will be set at £0.96 per meter across all price-controlled meters in the East Midlands region. This adjustment may be applied by the licensee over an adjustment period of 15 months, between June 1<sup>st</sup> 2007 and 31<sup>st</sup> August 2008. This reflects an estimated recoverable stranded cost for token prepayment meters (PPMs) of £2,646,762.
- for **Central Networks West plc**, the  $AF_t$  will be set at £0.35 per meter across all price-controlled meters in the Midlands region. This adjustment may be applied by the licensee over an adjustment period of 10 months, between June 1<sup>st</sup> 2007 and 31<sup>st</sup> March 2008. This reflects an estimated recoverable stranded cost for token PPMs of £630,248.

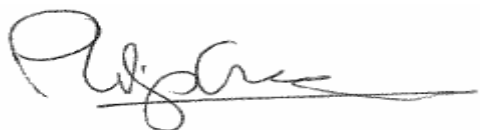
In accordance with section 49A(3) of the Electricity Act 1989, the Authority's reasons for making this determination are in order to allow the licensees to recover 30% of the efficient costs incurred or likely to be incurred as a consequence of a supplier's decisions to replace one prepayment meter technology with another, as set out in Special Condition F1, paragraph 10 of the distribution licences of CN East plc and CN West plc. In making this determination, the Authority has consulted with the licensees and given full regard to its statutory duties, the purposes of the relevant licence conditions and to the methodological guidelines published by the Authority.

As set out in the methodological guidelines and discussed in your notification to the Authority, if the replacement of legacy token prepayment meters occurs significantly faster

than assumed in the determination of the Aft, then Central Networks may submit a subsequent application for a further adjustment to be applicable. Conversely, if the replacement of legacy token prepayment meters is significantly slower than assumed in the determination of the Aft, then Central Networks will apply a 30% discount to the tariff cap for those meters for which replacement is delayed.

If you have any queries please do not hesitate to contact Duncan Mills on 020 7901 7443.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Philip Davies', with a long horizontal flourish extending to the right.

Philip Davies  
Director, GB Markets  
Ofgem

For, and on behalf of, **The Gas and Electricity Markets Authority**