

Date: 05 October 2009

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Dear Rachel,

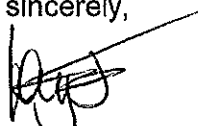
**REQUEST FOR A DEROGATION UNDER PART J OF STANDARD LICENCE CONDITION  
50 OF THE DISTRIBUTION LICENCE**

CE Electric UK Funding Company (CE) is the UK parent company of Northern Electric Distribution Ltd (NEDL) and Yorkshire Electricity Distribution plc (YEDL). This letter constitutes the response to the above information request on behalf of NEDL and YEDL.

In accordance with Part J Standard Condition 50. (Development and implementation of a Common Distribution Charging Methodology), of the Distribution Licence, Northern Electric Distribution Ltd (NEDL) is seeking a derogation from Paragraph 50.13 of Part C of the Condition, namely the requirement to implement the Common Charging Methodology (the "CDCM") in compliance with the requirements of that Condition.

The details of the derogation being requested are shown in appendix 1 of this letter.

Yours sincerely,



Harvey Jones  
Head of Network Trading

**CE ELECTRIC UK FUNDING COMPANY**

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## Appendix 1 Derogation Request (NEDL)

<b>Details of the Application</b>			
<p>The scope of this derogation request covers the billing of "Exceeded Capacity Charges" - (import and export) and "Reactive Power Charges" (Import and Export) within the collective distribution charging methodology (CDCM) due to come into force (assuming Ofgem non-veto) in April 2010. The charges will form part of the distribution use of system (DUoS) charges for NEDL.</p> <p>In accordance with Part J Standard Condition 50. (Development and implementation of a Common Distribution Charging Methodology), of the Distribution Licence, NEDL is seeking a derogation from Paragraph 50.13 of Part C of the Condition, namely the requirement to implement the Common Charging Methodology the ("CDCM") in compliance with the requirements of that Condition.</p>			
<b>Description of the Non-compliance</b>			
<p>Currently NEDL does not have a charge for either reactive power charges or exceeded capacity charges on either an import or export basis approved in its DUoS charge methodology, therefore the associated billing systems do not yet contain the correct software to ensure bills are calculated and produced.</p>			
<b>Reason for the Non-Compliance</b>			
<p>We are currently in the process of changing our billing systems to accommodate these changes within our monthly DUoS bills. However it is possible that these changes will be ready by the implementation date of April 2010. We are seeking a derogation from the obligation to apply the reactive power and exceeded capacity charges (import and export) within the CDCM until 01 July 2010, by which date we expect to have updated our systems. The reason for the non-compliance is that the completion date of the CDCM project has not left enough time for NEDL to alter systems before the due implementation date.</p>			
<b>Duration of the derogation</b>			
From	01 April 2010	To	01 July 2010
<b>Impact of the Non-compliance</b>			
Consumers	<p>Currently NEDL does not have the functionality in its billing system to bill this charge. There will therefore be no incremental change for consumers as a result of this derogation. This change will affect the bills of 5,052 half-hourly billed customers in the NEDL area.</p> <p>The impact will be to delay the introduction of reactive power and exceeded capacity charges by three months. This will lead to estimated under-recovery of income in 2010/11 of £51k due to the reactive power charge and £105k due to the exceed capacity charge, making a total of £156k which will be collected from incremental charges to all users in 2011/12 or in 2010/11 by enacting a mid-year tariff change.</p> <p>Our estimate of the financial impact to customers is that it is small. If we are not going to charge reactive and exceeded capacity charges then some customers' bills will be higher than they otherwise would have been in 2011/12 (or in 2010/11 under a mid-year tariff change) to accommodate this under-recovery:</p> <ul style="list-style-type: none"> <li>• For the reactive power charge element this shows an additional total charge of £0.02 per customer per year based on an unrestricted tariff for an average domestic customer.</li> <li>• For exceeded capacity charge element this shows an additional total charge of £0.05 per customer per year based on an unrestricted tariff for an average domestic customer.</li> </ul>		
Security of Supply	<p>As NEDL does not currently have these charges there is no incremental impact on security of supply.</p>		
Competition	<p>As this applies to all suppliers and we currently do not have the exceeded capacity or reactive power charge we do not believe this will impact competition.</p>		
Sustainable Development	<p>Both reactive power charges and exceeded capacity charges could help consumers manage their consumption by sending a cost signal. This derogation will delay the implementation of these cost signals, however given that NEDL currently does not have these charges we have no evidence to enable us to understand how the extent to which these charges may produce a customer reaction in electricity usage.</p>		

Health and Safety	There is no health and safety impact of this decision.
Other parties affected	We do not believe that other network operators will be affected by this derogation. No other parties are affected.
Actions to mitigate the risks	
A project has now been established to ensure that we will deliver the new system on time; detailed specifications have been established and this project has senior managers from CE Electric UK on the project board. This derogation mitigates the risk of breach of licence due to being unable to bill in line with the new requirements of our licence.	
Proposals for restoring compliance	
It is proposed to restore compliance by 01 July 2010 when the project to change our systems has been completed.	
Alternative actions	
It may be possible to withdraw this derogation if the project completes before April 2010.	
<p>We have assessed the option of a manual work-around to bill this charge. In order to endeavour to use a manual billing process to produce 5,052 additional bills within the timetable of receipt of half-hourly data until the billing date would require the processing of 336 bills per day (on average). It would therefore take an additional 168 man hours per day (on an estimated average of 30 minutes per bill) which would equate to an additional 22 staff at an approximate total cost of £36,000 per month, plus additional office space and management cost. These additional factors would give rise to circa £120,000 of incremental cost for the three-month period. This cost would seem to be disproportionately expensive compared to the alternative of a short delay in implementation. There would also be a delay to the current billing cycle for the half-hourly billed customers and therefore suppliers would see a change in the billing date and further cashflow disturbance.</p>	
Additional Information	
<p>We do not foresee additional cost for supplier billing systems as a result of the delay in the implementation of this charge as we currently do not bill it in our charges. It might be more effective for DNOs to co-ordinate the implementation dates of this aspect of the CDCM. Within the limits of practicality, CE UK would be prepared to adjust the NEDL derogation dates to co-ordinate with other DNOs to ensure minimum cost for suppliers.</p> <p>Should we complete our project to change our billing systems prior to April 2010, we will seek to withdraw this derogation request with Ofgem.</p>	