



Company Secretary
CE Electric
98 Aketon Road
Castleford
West Yorkshire
WF10 5DS

*Promoting choice and value for
all gas and electricity customers*

Direct Dial: 020 7901 7194
Email: rachel.fletcher@ofgem.gov.uk

Date: 21 December 2009

Dear Company Secretary,

Derogation pursuant to paragraph 50.36 of Standard Licence Condition 50 (Development and implementation of a Common Distribution Charging Methodology for the High and Low Voltage Networks) of the Electricity Distribution Licence

I refer to your letter of 5 October 2009¹ requesting a derogation to be granted, pursuant to paragraph 50.36 of the Electricity Distribution Licence (the "Licence"), in respect of the requirements of paragraph 50.13 relating to the Common Distribution Charging Methodology (the "CDCM")². Paragraph 50.13 requires the holder of a Licence to give effect to the CDCM no later than 1 April 2010. We acknowledge your request for a derogation to be granted to CE Electric UK Funding Company ("CE") pursuant to paragraph 50.13 to relieve its two licensees, Northern Electric Distribution Ltd ("NEDL") and Yorkshire Electricity Distribution plc ("YEDL"), of their obligation to comply with paragraphs 150, 152-159 and 160-169 of the CDCM.

Areas of non compliance against the CDCM

The derogation request seeks to relieve CE from complying with paragraphs 150, 152-159 and 160-169 of the CDCM where the methodology for calculating and billing excess capacity and reactive charges is prescribed. Currently CE does not have in place either excess reactive power charges or exceeded capacity charges (either on import or export). CE requests a definite derogation to continue to use its existing methodology until 1 July 2010.

Information provided by CE

We have considered the information provided by CE in reaching our decision on the request for derogation. We note that CE advised that:

- The absence of reactive and excess capacity charges will directly reduce the bill of half hourly customers in NEDL and YEDL. The revenue that would have been generated from these charges will be collected from all users. CE estimates that the

¹ CE's letter is available to view on our website at <http://www.ofgem.gov.uk/NETWORKS/ELECDIST/POLICY/DISTCHRGs/Documents1/Derogation%20request%20DCM%20NEDL%20051009.doc.pdf> (NEDL) and <http://www.ofgem.gov.uk/NETWORKS/ELECDIST/POLICY/DISTCHRGs/Documents1/Derogation%20request%20DCM%20YEDL%20051009.pdf> (YEDL).

² We refer to the CDCM as submitted to us on 25 August 2009. See [http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/Cover for CDCM submission and derogations.pdf](http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/Cover%20for%20CDCM%20submission%20and%20derogations.pdf)

impact on domestic unrestricted customers' bill is £0.02 per customer per year in NEDL and £0.05 per customer per year in NEDL due to reactive charges, and £0.05 per customer per year in NEDL and £0.03 per customer per year in NEDL due to exceeded capacity charges.

- The cost of manual work around to resolve the issues above is estimated at £120k (NEDL) and £200k (YEDL) for the three month period for which the derogation is requested.
- The areas of non-compliance do not impact on security of supply, competition, or health & safety.

The Authority's decision

We have considered CE's derogation request in accordance with our principal objective and general duties in light of the information provided by CE. We have considered in particular those factors set out in the Guidance Note 'Derogation from codes and standards in electricity generation, supply, distribution and transmission licenses'³ and have decided to grant definite derogation from the paragraphs 150, 152-159 and 160-169 of the CDCM for the following reasons:

- CE has identified specific areas of non-compliance with the CDCM and is working to modify its billing system to be able to fully comply with the CDCM requirements within a period of 3 months.
- CE estimated that the impact of non-compliance is small and that the cost of manual work around the non compliance would involve considerable resources and too high a cost to justify such solution given the modest impact of the derogation on consumers.
- The duration of the derogation request is relatively short and CE is making an effort to fully comply with the CDCM (with an appropriate notice period) by 1 April 2010.
- Suppliers expressed that they could comfortably accommodate these definite derogations and that they will not result in additional cost for them.
- The areas of non-compliance do not materially reduce the benefits associated with the CDCM.

For the duration of the derogation CE will use their existing methodology in each of the areas where a derogation was granted.

Duration of the derogation

Based on CE's view of the time required to complete the required changes to their IT system the Authority hereby grants a derogation from the requirements of paragraph 50.13 until 30 September 2010. This derogation will expire on 30 September 2010 unless amended or revoked by the Authority upon reasonable notice. We note that the duration of this derogation is longer than the 3 months duration requested by CE. We decided to extend the derogation to 6 months to have a uniform expiry date for all derogation requests in order to ensure maximum transparency of the derogation process and minimum cost for suppliers, as well as to tie in with normal charge change processes where it is expected that DNOs change their charges on either 1 April or 1 October each year.

This letter constitutes notice for the purposes of section 49A of the Act in relation to the Direction.

³ <http://www.ofgem.gov.uk/Networks/Techn/TechStandds/Derogtns/Documents1/090119DerogationsGuidance.pdf>

Yours faithfully

A handwritten signature in black ink, appearing to read 'Rachel Fletcher', is written over a light grey rectangular background.

Rachel Fletcher
Partner – Distribution

For and on behalf of the Authority