

30 November 2011

Rachel Fletcher
Acting Senior Partner, Distribution
The Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

Dear Rachel,

RE: Fulfilling the conditions attached to Ofgem's approval of the EDCM for demand tariffs

I am writing on behalf of the DNOs' Common Methodology Group (CMG) with regard to the conditions placed by Ofgem on its approval of the Extra-High-Voltage Distribution Charging Methodology (EDCM) for demand (import) tariffs only. These conditions were set out in an Ofgem document published on 6 September 2011.

The DNOs, through Workstream B of the CMG, have been working towards fulfilling the conditions set out in that document. So far, our work has focussed on the two conditions (conditions 1 and 2) that are to be met prior to 30 November 2011, for implementation by 1 April 2012.

We have now developed proposals for modifications to the original methodology that, we believe, meet the requirements of conditions 1 and 2. Appendix 1 explains our proposals and how they meet these requirements.

Ofgem's decision of 6 September 2011 also postponed the implementation of the EDCM for generation charges to 1 April 2013 at the earliest. Consequently, we have modified our original proposals for the EDCM in two ways. We have removed sections of the methodology that relate to the calculation of charges for generation (export). We have modified an aspect of the calculation of demand (import) charges that interacted with the generation calculations. These changes are necessary to ensure that the final methodology statement does not contain segments relating to generation charges that are

neither approved by Ofgem, nor relevant to the calculation of use of system charges that will be applied in 2012/2013. Appendix 2 explains these changes in some detail.

Separately, following the submission of our proposals for the EDCM on 1 April 2011, we have undertaken a significant amount of work to check the methodology statements and the Excel models for errors, omissions and ambiguities. We have identified a small number of instances where the original methodology statement and the Excel models were inconsistent, ambiguous or lacked sufficient clarity. We have modified our proposals for the EDCM to remove these inconsistencies and ambiguities.

To summarise, the original EDCM proposals submitted to Ofgem in April 2011 have been modified to reflect:

- Changes to comply with conditions 1 and 2 of Ofgem's approval of the EDCM for demand only.
- Changes to remove sections of the methodology that relate to the calculation of generation tariffs, following Ofgem's decision to delay the implementation of the EDCM for generation tariffs.
- Changes made to remove ambiguities and improve clarity in the original methodology statements and models.

Our modified proposals for the EDCM are set out in Appendix 3a (FCP) and 3b (LRIC). We believe that our modified proposals for the EDCM would better meet the relevant objectives of the EDCM.

We therefore request that Ofgem removes conditions 1 and 2, and approves our modified EDCM proposals.

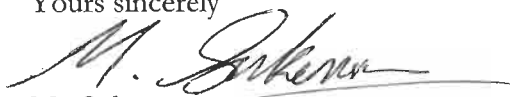
This letter is accompanied by the following appendices:

- Appendix 1 is a report from the ENA (on behalf of the CMG) that explains the changes that we have made to the methodology in order to meet conditions 1 and 2, and why we believe these changes are sufficient to satisfy the requirements of these conditions.
- Appendix 2 is a report explaining the changes made to the methodology in order to remove generation tariff calculations, remove ambiguities and improve clarity. We feel that incorporating these changes better meets the relevant objectives of the EDCM.
- Appendix 3a and 3b contains updated long run incremental cost (LRIC) and forward cost pricing (FCP) methodology statements for demand (import) charges only.
- Appendix 4a and 4b, attached as two Microsoft Excel workbooks, gives, for each of the 14 DNO licence areas in Great Britain, illustrative import tariffs that might have resulted from the application of the updated EDCM methodology in 2011/2012. One contains results for end-users and the other for LDNOs.
- Appendix 5, attached as four Microsoft Excel workbooks, gives fully functional blank EDCM models for calculating import tariffs under both methodologies (FCP and LRIC) and discounts that would apply to Licensed Distribution Network Operators (LDNOs) serving HV and LV end users.

We would be grateful for an early decision from Ofgem, particularly in light of the tight timelines for implementation of the EDCM.

Please do not hesitate to contact me if you require any further information. I look forward to hearing from you.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'M. Sukumaran', written in black ink. The signature is fluid and extends across the width of the text area.

Mo Sukumaran

(On behalf of the CMG)

