



Making a positive difference
for energy consumers

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Date: 30 June 2016

Authority¹ decision on UK Power Distribution Limited proposed Use of System Charging Methodology and Use of System Charging Statement

Under standard licence condition ("SLC") 13 of Electricity Distribution Licence ("the Licence"), you are required to have in force a Use of System ("UoS") Charging Methodology which we have approved on the basis that it achieves the Relevant Objectives.² Under SLC 14 of the Licence, you are also required to have a UoS Charging Statement.

Under amended standard licence condition ("ASLC") BA2 you must set domestic customers' UoS charges so that the standing charge, unit rate and other components of the charge do not exceed the UoS charges to equivalent domestic customers connected to a host Distribution Network Operator's ("DNO's") network. This constitutes a relative price control for Independent DNOs.

SLC 14 of the Licence requires that licensees prepare a UoS Charging Statement which sets out the basis on which charges will be made for the use of their distribution system. That statement must, at all times, be available in a form that we have approved.

On 05 May 2016 you submitted a UoS Charging Methodology and Statement to us for approval.

We have assessed your proposed UoS Charging Methodology against both the Relevant Objectives and against the charging principles outlined in ASLC BA2 and have decided to approve it. We have also decided to approve your UoS Charging Statement. This letter sets out the reasons for our decision.

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work.

² The relevant objectives for the methodology, as contained in paragraph 3 of SLC 13 of your licence are:
(a) that compliance with the methodology facilitates the discharge by the licensee of the obligations imposed on it under the Electricity Act 1989 and its licence;
(b) that compliance with the 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 methodology results in changes which reflect, as far as is reasonably practicable (taking into account of implementation costs), the costs incurred by the licensee and its Distribution Business;
(d) that, so far as is consistent with sub-paragraphs (a), (b) and (c), the methodology, as far as is practicable, properly takes account of developments in the licensee's Distribution Business; and
(e) compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.

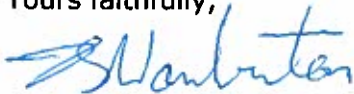
We have approved a UoS Charging Methodology for each DNO. As your networks, in general, form the final section of the distribution network, in adopting the UoS charges of the host DNO they will reflect broadly the similar costs which your customers impose on the total distribution network. Consequently, this methodology provides a reasonable proxy to the "all the way" costs. Replicating the host DNO charges also ensures compliance with ASLC BA2 which facilitates competition in supply through maintaining a consistent distribution UoS charge within each distribution services area.

We consider that, given the relative size and resources of IDNOs, your UoS Charging Methodology provides a practical and efficient way to meet both the requirements of SLC 13 and ASLC BA2. We have therefore decided to approve your UoS Charging Methodology.

You should note that under SLC 13.2 of the Licence you must review your UoS Charging Methodology at least once every year and make such modifications (if any) as are necessary for the purpose of better achieving the Relevant Objectives. Under SLC 14.4 of the Licence you must periodically review and at least once in every Regulatory Year make any changes necessary.

If you have any questions surrounding the issues raised in this letter, please contact Lesley Ferrando at lesley.ferrando@ofgem.gov.uk or on 0207 901 1808.

Yours faithfully,



Frances Warburton
Partner, Energy Systems

Signed on behalf of the Authority and authorised for that purpose by the Authority