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To: Ofgem, Suppliers, LDNOs

Our Ref: NR/FC-April 2018
Tel: 01977 605934

Date: 21 December 2016

Dear Stakeholder

Notice of charges for distribution use of system (UoS) from 1 April 2018

Northern Powergrid Holdings Company is the UK parent company of Northern Powergrid (Northeast) Limited and Northern Powergrid (Yorkshire) plc.

In accordance with the requirement of the Distribution Connection and Use of System Agreement (DCUSA), and the electricity distribution licence (the Licence), I am writing on behalf of Northern Powergrid (Northeast) and Northern Powergrid (Yorkshire) to give you notice of the final charges that will apply from 1 April 2018.

This notice is given in satisfaction of the obligations placed upon us by Standard Licence Condition 14: Charges for Use of System and Connection taking account of the requirements of Special Condition CRC2A: Restriction of Allowed Distribution Network Revenue. These obligations are summarised in Appendix 1 to this letter.

The charges for April 2018 have been calculated utilising:

- The Common Distribution Charging Methodology (CDCM) for low-voltage (LV) and high-voltage (HV) demand and generation users; and
- The joint demand and generation Extra-high-voltage Distribution Charging Methodology (EDCM) for extra-high-voltage (EHV) customers.

Both methodologies are under the DCUSA open governance regime.

The proposed tariff changes reflect the revenue allowances that are generated from the latest available forecast and outturn information, which includes our best view of the overall revenue allowed under the price control. In arriving at the revised charges for April 2018 we have made a number of assumptions. Revenue allowances, and ultimately the tariffs, are based on assumptions for the regulatory year in which the charges will apply (i.e. 2018/19).

Reasonable endeavours have been used to set these charges at a level that will yield an amount that does not exceed the maximum permitted by the Charge Restriction Conditions

NORTHERN POWERGRID

is the trading name of Northern Powergrid (Northeast) Ltd (Registered No: 2906593) and Northern Powergrid (Yorkshire) plc (Registered No: 4112320)

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(CRCs) of the Licence. The assumptions set out in Appendix 2 detail the 2018/19 unit volume forecast and the allowed revenue assumptions that we have used to derive the charges.

Taking account of all the relevant factors that will govern allowed revenues, this has resulted in an overall increase in revenue to be recovered from UoS tariffs in 2018/19 (compared to the revenue that would be yielded from the UoS charges applied from 1 April 2017, if left unchanged) of 2.2% for Northern Powergrid (Northeast) and 5.3% for Northern Powergrid (Yorkshire). These new charges will be effective from 1 April 2018.

We do not intend to post hard copies of our final charges, but we shall make the following documents available electronically on our web site, which can be accessed at:

<http://www.northernpowergrid.com/document-library/charges>:

- 'Statement of use of system charges' - Standard Licence Condition 14;
- 'Use of system methodology statements' - Standard Licence Condition 13;
- Annual review pack (ARP); and
- Tariff movement disturbance analysis.

I trust this provides you with sufficient information at this time to make informed decisions, but if you have any queries or concerns regarding the above please do not hesitate to contact me. If you are not the most appropriate person within your organisation to receive notification of these revised charges, please let me know and I shall amend our mailing list appropriately.

In addition, as part of our on-going commitment to stakeholder engagement, we are happy to facilitate bi-lateral meetings, on the final UoS charges or any other charging related issue.

Yours sincerely

P Wormald

Pat Wormald - Charges Manager

Appendix 1 - Licence obligations associated with setting UoS charges

Standard Condition 14 - “Charges for use of system and connection” defines the rules that apply to the setting of UoS charges, namely:

- we must have a statement, in a form approved by the Authority;
- we must set charges in accordance with our published methodology statement;
- we must present in such form and in such detail as would enable any person to make a reasonable estimate of the charges for which they would become liable;
- we must publish charges in such a manner that we believe ensures adequate publicity (including on our website);
- we must periodically (at least once a year) review our charging statements and ensure information is accurate in all material respects;
- we must provide a copy of our charging statement to any person who requests it;
- we must give no less than three months’ notice of a change to charges (i.e. to introduce a tariff change from 1 April 2018 we need to have charges calculated and published by 31 December 2017) to both the Authority and any person entered into an agreement for use of system. Note: 15 months’ notice is required under DCUSA as a result of DCP178 therefore to introduce a tariff change from 1 April 2018 we need to have charges calculated and published by 31 December 2016);
- we can change our charges only if we have given notice of the proposed amendment, and where, when made, the amendment conforms to the notice. Charges may vary after the notice has been given due to a “material change” in the underlying assumptions but only to the extent necessary to reflect such material changes; and
- the amendment takes effect on 1 April of the relevant regulatory year.

Charge Restriction Condition 2A (CRC2A) - “Restriction of Allowed Distribution Network Revenue” determines the Allowed Distribution Network Revenue for each year of the price control and the way that over/under-recoveries from previous years are to be treated.

Appendix 2 - Assumptions for tariffs from April 2018

The Northern Powergrid charges have been assembled utilising the following assumptions.

- The first table shows our assumptions on the forecast units distributed; and
- The second table details the construction of our allowed revenue calculations, which are set out in CRC2 of the Licence. This comprises changes to our base revenue; pass-through costs; incentive payments; adjustments for the prior-year over/under-recovery position; and directly remunerated services. It then compares our forecast allowances to the actual revenue expectations (billed revenue) to give the over/under-recovery position.

Northern Powergrid Unit volume assumptions (GWh)	2018/19 (outturn assumption) Northeast	2018/19 (outturn assumption) Yorkshire
LV units	9,684	13,439
HV units	3,025	5,657
EHV units	1,783	1,887
Total demand units	14,492	20,984
Total generation units	802	815

Note: all figures in the table above are GWh and all figures in the table below are £m.

Northern Powergrid Allowed and actual Revenue projection assumptions (£m)		2018/19 (outturn assumption) Northeast	2018/19 (outturn assumption) Yorkshire
Base demand revenue	Base demand revenue (2012/13 prices)	246.5	322.0
	Annual iteration process adjustment (2012/13 prices)	(3.7)	(5.5)
	RPI true-up adjustment (2012/13 prices)	(0.8)	(1.0)
	Indexation	37.5	48.9
Pass-through costs	Licence fee adjustment	-	(0.1)
	Business rates adjustment	(0.1)	(0.1)
	Transmission connection point charges adjustment	1.7	0.7
	Smart meter communication licence cost adjustment	0.5	0.8
	Smart meter IT cost adjustment	1.6	1.0
	Ring fence cost adjustment	-	-
Incentive payments	Broad Measure of Customer Service incentive	2.2	2.9
	Quality of Service incentive	6.6	12.9
	Incentive on Connections Engagement	-	-
	Time to Connect incentive	0.4	0.7
	Losses Discretionary Reward incentive	-	-
	Network Innovation Allowance	1.6	2.2
	Low Carbon Networks Fund	0.9	1.2
	Connection Guaranteed Standards incentive	-	-
Other	Residual Losses and Growth incentive	-	-
	Directly remunerated services	-	-
Total revenue	Correction	(4.3)	(3.3)
	Forecast combine allowed revenue	290.6	383.2
	Forecast actual revenue	290.6	383.2
Over/(Under)-Recovery (before interest)		-	-