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To: Ofgem, Suppliers, LDNOs

Our Ref: NR/FC-April 2016
Tel: 01977 605934

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Dear Stakeholder

Notice of charges for distribution use of system (UoS) from 1 April 2016 and 1 April 2017

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 2016 and 1 April 2017.

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 Special Condition CRC2A: Restriction of Allowed Distribution Network Revenue. These obligations are summarised in Appendix 1 to this letter.

The approval of DCUSA change DCP178 'Notification Period for Change to Use of System Charges' requires us to transition to providing you with 15 months' notice of our charges. Hence, for this year only there is a requirement to produce two sets of charges, both of which are the final tariffs and not indicative as they were in prior years. For 2016/17 we are providing 3 months notice and for 2017/18 we are providing the required 15 months.

The charges for both April 2016 and April 2017 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 Distribution Connection and Use of System Agreement (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

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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revenue, allowed under the price control. In arriving at the revised charges for April 2016 and April 2017 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. 2016/17 and 2017/18 respectively).

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 of the licence. The assumptions set out in Appendix 2 detail the 2016/17 unit volume forecast and the allowed revenue assumptions that we have used to derive the charges. Appendix 3 shows the equivalent information for 2017/18.

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 2016/17 (compared to the revenue that would be yielded from the UoS charges applied from 1 April 2015, if left unchanged) of 9.7% for Northern Powergrid (Northeast) and 5.6% for Northern Powergrid (Yorkshire). These new charges will be effective from 1 April 2016.

For 2017/18 this has resulted in an overall decrease in revenue to be recovered from UoS tariffs (compared to the revenue that would be yielded from the UoS charges applied from 1 April 2016, if left unchanged) of 3.1% for Northern Powergrid (Northeast) and 0.9% for Northern Powergrid (Yorkshire). These new charges will be effective from 1 April 2017.

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 indicative 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 use of system 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 use of system 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 2016 we need to have charges calculated and published by 31 December 2015) 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;
- 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 2016

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 charge restriction conditions (chapter 2) of the distribution licence. This comprises changes to our base revenue; pass-through costs; incentive payments; adjustments for the prior-year under/over-recovery position; and directly remunerated services (formerly known as excluded services). It then compares our forecast allowances to the actual revenue expectations (billed revenue) to give the under/over-recovery position.

Northern Powergrid Unit volume assumptions (GWh)	2016/17 (outturn assumption) Northeast	2016/17 (outturn assumption) Yorkshire
LV units	9,767	13,541
HV units	2,908	5,659
EHV units	2,098	2,120
Total demand units	14,772	21,320
Total generation units	789	676

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)		2016/17 (outturn assumption) Northeast	2016/17 (outturn assumption) Yorkshire
Base demand revenue	Base demand revenue (2012/13 prices)	246.5	322.0
	Annual iteration process adjustment (2012/13 prices)	(1.0)	1.2
	RPI true-up adjustment (2012/13 prices)	-	-
	Indexation	21.4	28.1
Pass-through costs	Licence fee adjustment	-	-
	Business rates adjustment	-	-
	Transmission connection point charges adjustment	-	-
	Smart meter communication licence cost adjustment	-	-
	Smart meter IT cost adjustment	-	-
	Ring fence cost adjustment	-	-
Incentive payments	Broad Measure of Customer Service incentive	(1.1)	(0.9)
	Quality of Service incentive	5.0	13.8
	Incentive on Connections Engagement	-	-
	Time to Connect incentive	-	-
	Losses Discretionary Reward incentive	-	-
	Network Innovation Allowance	1.6	2.1
	Low Carbon Networks Fund	0.4	0.5
	Connection Guaranteed Standards incentive	-	-
	Residual Losses and Growth incentive	(2.8)	(11.8)
Other	Directly remunerated services	-	-
	Correction	20.2	12.6
Total revenue	Forecast combine allowed revenue	290.2	367.7
	Forecast actual revenue	290.2	367.7
	Over/(Under)-Recovery (before interest)	-	-

Appendix 3 - Assumptions for tariffs from April 2017

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 charge restriction condition chapter 2 of the distribution licence. This comprises changes to our base revenue; pass-through costs; incentive payments; adjustments for the prior-year under/over-recovery position; and directly remunerated services (formerly known as excluded services). It then compares our forecast allowances to the actual revenue expectations (billed revenue) to give the under/over-recovery position.

Northern Powergrid Unit volume assumptions (GWh)	2017/18 (outturn assumption) Northeast	2017/18 (outturn assumption) Yorkshire
LV units	9,601	13,345
HV units	2,931	5,679
EHV units	2,171	2,120
Total demand units	14,703	21,144
Total generation units	789	676

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)		2017/18 (outturn assumption) Northeast	2017/18 (outturn assumption) Yorkshire
Base demand revenue	Base demand revenue (2012/13 prices)	246.5	322.0
	Annual iteration process adjustment (2012/13 prices)	(3.5)	(1.7)
	RPI true-up adjustment (2012/13 prices)	(4.9)	(6.4)
	Indexation	28.8	38.0
Pass-through costs	Licence fee adjustment	0.2	0.2
	Business rates adjustment	(0.1)	0.4
	Transmission connection point charges adjustment	0.4	0.8
	Smart meter communication licence cost adjustment	(0.0)	0.1
	Smart meter IT cost adjustment	1.4	2.2
	Ring fence cost adjustment	0.0	0.0
Incentive payments	Broad Measure of Customer Service incentive	0.8	1.1
	Quality of Service incentive	6.2	10.7
	Incentive on Connections Engagement	-	-
	Time to Connect incentive	-	-
	Losses Discretionary Reward incentive	-	-
	Network Innovation Allowance	1.6	2.1
	Low Carbon Networks Fund	0.3	0.4
	Connection Guaranteed Standards incentive	-	-
	Residual Losses and Growth incentive	-	(7.6)
Other	Directly remunerated services	-	-
	Correction	1.2	(0.5)
Total revenue	Forecast combine allowed revenue	279.0	361.8
	Forecast actual revenue	279.0	361.8
	Over/(Under)-Recovery (before interest)		