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To: Ofgem, Suppliers, LDNOs

Our Ref: NR/FC-April 2024

Tel: 07834 618994

Date: 23 December 2022

Dear Stakeholder

### **Notice of charges for distribution use of system from 1 April 2024**

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

In accordance with the requirements of the Distribution Connection and Use of System Agreement (“DCUSA”), and the electricity distribution licences under which Northern Powergrid (Northeast) and Northern Powergrid (Yorkshire) operate (“the Licence”), I am writing to give you notice of our final use of system charges that will apply from 1 April 2024.

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 2024 have been calculated using:

- the Common Distribution Charging Methodology (CDCM) for demand and generation customers connected at low-voltage (LV) and high-voltage (HV), excluding those connected at an EHV/HV substation; and
- the joint demand and generation Extra-high-voltage (EHV) Distribution Charging Methodology (EDCM) for demand and generation customers connected at EHV, or connected at HV at an EHV/HV substation.

Both methodologies are under the DCUSA open governance regime and have undergone minor change this year to reflect the latest approved DCUSA changes.

Revenue allowances, and ultimately the tariffs, are based on assumptions for the regulatory year in which the charges will apply (i.e. 2024/25). Best endeavours have been used to set these charges at a level that will yield an amount that is in line with the expected maximum permitted allowance in 2024/25. The assumptions set out in Appendix 2 detail the 2024/25 unit volume forecast and the allowed revenue assumptions that we have used to derive the charges.

NORTHERN POWERGRID

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

Registered Office: Lloyds Court, 78 Grey Street, Newcastle upon Tyne NE1 6AF. Registered in England and Wales.

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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 use of system tariffs in 2024/25 (compared to the revenue that would be yielded from the use of system charges which will be applied from 1 April 2023, if left unchanged) of 46.4% for Northern Powergrid (Northeast) and an overall increase of 52.6% for Northern Powergrid (Yorkshire).

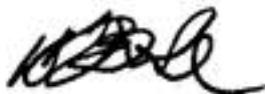
We do not intend to post hard copies of our final charges, but we shall make the following documents available electronically on our web site, which can be accessed at: <http://www.northernpowergrid.com/document-library/charges>:

- 'Statement of use of system charges' and accompanying excel workbook, satisfying Standard Licence Condition 14;
- 'Use of system methodology statements', satisfying Standard Licence Condition 13;
- CDCM models, as required by schedule 16 of DCUSA;
- Annual review pack (ARP), as required by schedule 20 of DCUSA; and
- Tariff movement disturbance analysis, provided to enable stakeholders to understand the primary drivers for year-on-year tariff changes.

I trust this provides you with sufficient information at this time, 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 bilateral meetings, or a workshop, on: the final use of system charges or any other charging related issue.

Yours sincerely



Kara Burke - Commercial Manager - Charges

## 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 that a distributor:

- must have a statement, in a form approved by the Authority;
- must set charges in accordance with its published methodology statement;
- must present charges 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;
- must publish charges in such a manner that it believes ensures adequate publicity (including on its website);
- must periodically (at least once a year) review its charging statements and ensure information is accurate in all material respects;
- must provide a copy of its charging statement to any person who requests it;
- must give no less than three months’ notice of a change to charges (i.e. to introduce a tariff change from 1 April 2024, charges must be calculated and published by 31 December 2023) to both the Authority and any person entered into an agreement for use of system. Note: 15 months’ notice is required under DCUSA; therefore to introduce a tariff change from 1 April 2024, charges must be calculated and published by 31 December 2022);
- can change its charges only if it has 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
- can change its charges only if 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 2024

Our charges have been calculated using the following assumptions.

The first table shows our assumptions on the forecast units distributed. The second table details the construction of our allowed revenue calculations for 2024/25. This comprises changes to our base revenue; pass-through costs; incentive payments; adjustments for the prior-years 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.

| <b>Northern Powergrid<br/>Unit volume assumptions (GWh)</b> | <b>2024/25<br/>(outturn<br/>assumption)<br/>Northeast</b> | <b>2024/25<br/>(outturn<br/>assumption)<br/>Yorkshire</b> |
|---|---|---|
| LV units  | 7,912   | 11,217  |
| HV units  | 2,250   | 4,445   |
| EHV units   | 1,453   | 1,887   |
| <b>Total demand units</b>                                   | <b>12,133</b>   | <b>18,181</b>   |
| <b>Total generation units</b>                               | <b>2,882</b>  | <b>5,093</b>  |

| Northern Powergrid<br>Allowed and actual Revenue projection assumptions (£m) |  | 2024/25<br>(outturn<br>assumption)<br>Northeast | 2024/25<br>(outturn<br>assumption)<br>Yorkshire |
|--|--|---|---|
| Base demand<br>revenue   | Base demand revenue (2012/13 prices)                   | 239.6   | 319.9   |
|  | Annual iteration process adjustment (2012/13 prices)   | 2.7   | 4.3   |
|  | RPI true-up adjustment (2012/13 prices)                | 16.6  | 21.3  |
|  | Indexation   | 138.2   | 184.5   |
| Pass-through<br>costs  | Licence fee adjustment                                 | 0.4   | 0.5   |
|  | Business rates adjustment                              | 2.5   | (16.8)  |
|  | Transmission connection point charges adjustment       | 0.3   | (4.7)   |
|  | Smart meter communication licence cost adjustment      | 5.5   | 7.8   |
|  | Smart meter IT cost adjustment                         | 0.5   | 0.7   |
|  | Ring fence cost adjustment                             | -   | -   |
|  | Supplier of Last Resort                                | 1.1   | 1.6   |
|  | Bad Debt   | 3.0   | 3.9   |
|  | COVID-19 Bad Debt                                      | -   | -   |
| Other pass-<br>through   | Network innovation allowance                           | -   | -   |
|  | Low carbon networks fund                               | -   | -   |
| Incentives   | Broad measure of customer service incentive            | 2.8   | 3.8   |
|  | Quality of service incentive                           | 7.1   | 11.3  |
|  | Incentive on connections engagement                    | -   | -   |
|  | Time to connect incentive                              | -   | -   |
|  | Losses discretionary reward incentive                  | -   | -   |
|  | Residual losses and growth incentive                   | -   | -   |
| Correction   | <b>Year t-1 (over)/under-recovery (after interest)</b> | <b>78.1</b>                                     | <b>105.8</b>                                    |
| Total revenue  | Forecast combine allowed revenue                       | 498.4   | 644.0   |
|  | Forecast actual revenue                                | 498.4   | 644.0   |
|  | Over/(Under)-Recovery (before interest)                | -   | -   |