



Direct Dial: 020-7901-7478

5 March 2004

National Grid Company, CUSC Signatories and
Other Interested Parties

Your Ref: CAP054
Our Ref: IND/COD/CUSC/CAP054

Dear Colleague,

Amendment to the Connection and Use of System Code (CUSC) - Decision and Direction in relation to Proposed Amendment CAP054: Introduction of Year Round Charges.

The Gas and Electricity Markets Authority (the Authority¹) has carefully considered the issues raised in the Amendment Report² in respect of Proposed Amendment CAP054, Introduction of Year Round Charges.

National Grid Company plc (NGC) recommended to the Authority on 14 November 2003 that the Alternative Amendment be approved if the associated Use of System Charging Methodology Modification 11³ (UoSCM-M-11); Introduction of Year Round Charges were not to be vetoed by Ofgem. However, if for any reason the Authority were to reject the Alternative Amendment, NGC recommended the approval of the original CAP054 Amendment Proposal, again assuming the associated Modification were not to be vetoed.

Having carefully considered the Amendment Report and NGC's recommendation and having regard to the Applicable CUSC Objectives⁴ and the Authority's wider statutory duties⁵, the Authority has decided to reject both the Proposed Amendment and the Alternative Amendment.

¹ Ofgem is the office of the Authority. The terms "Ofgem" and "the Authority" are used interchangeably in this letter.

² CAP054 Amendment Report dated 14 November 2003.

³ Use of System Charging Methodology Modification 11 – Introduction of Year Round TNUoS charges.

⁴ The Applicable CUSC Objectives are contained in Standard Condition C7F of the licence to transmit electricity treated as granted to NGC under Section 6 of the Electricity Act 1989 (the "Transmission Licence") and are:

This letter explains the background to Proposed Amendment CAP054, including the interrelationship with UoSCM-M-11, and sets out the Authority's reasons for its decision.

Background

NGC has been undertaking a review of its Transmission Charging Methodologies, covering both connection and use of system issues, in consultation with users. This review originally commenced in February 2002 and has progressed through workshops, discussion papers, industry consultations and seminars.

The timing and progression of the review has also been informed by commitments made by National Grid to Ofgem in February 2003.⁶ One of these commitments was to review the time period over which Transmission Network Use of System (TNUoS) charges apply, including specifically whether it would be appropriate to introduce charges applicable to periods of less than one year.

NGC issued an initial consultation on changes to its Charging Methodologies in July 2003⁷, in which it outlined its conclusions from the transmission charging review process. NGC indicated a number of Proposed Amendments to the Charging for implementation with effect from 1 April 2004.

Proposed Amendment CAP054 was raised by NGC and submitted to the CUSC Amendments Panel (the Panel) for consideration at its meeting on 26 September 2003. The Panel determined that the Amendment Proposal should go straight to wider industry consultation. The final Amendment Report was submitted to the Authority on 14 November 2003.

the efficient discharge by the licensee of the obligations imposed upon it under the Act and by this licence; and

facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity.

⁵ Ofgem's statutory duties are wider than the matters that NGC must take into consideration and include amongst other things social and environmental guidance provided to Ofgem by the government.

⁶ In February 2003, National Grid made eight formal commitments to Ofgem to review and, if appropriate, bring forward proposals for reform of the contractual framework and transmission charging methodologies, with a timescale for implementing any proposals of April 2004. These commitments are listed in the Ofgem publication, "NGC system operator incentive scheme from 1 April 2003 – 31 March 2004: Final Proposals and Statutory Licence Consultation, March 2003", at paragraphs 6.14-6.18.

⁷ The Initial Charging Methodologies Consultation is available on the NGC website at [http://www.nationalgrid.com/uk/indinfo/charging/pdfs/Initial_Charging_Meths_consultation_July_2003_FINAL_\(z6\).pdf](http://www.nationalgrid.com/uk/indinfo/charging/pdfs/Initial_Charging_Meths_consultation_July_2003_FINAL_(z6).pdf)

The Proposed Amendment

The Proposed Amendment inserts new text into the CUSC relating to the introduction of Year Round TNUoS Charges. It would also amend the existing text to reflect the redefinition of TNUoS charges under UoSCM-M-11. Under this Modification Proposal, total TNUoS charges consist of the sum of Peak and Year Round TNUoS charges. These changes will ensure that the CUSC is aligned with the Statement Connection Charging Methodology.

The Alternative Amendment

The Alternative Amendment was put forward by NGC to clarify one aspect of the legal text, following concerns expressed by a respondent to the consultation document. The content of one sentence had been interpreted to infer that Transmission Entry Capacity (TEC) would be used to calculate the notional amount of generation, whereas the intention was to only reference the metered amount against TEC.

The only difference between the original Amendment proposal and the Alternative Amendment is the removal of one bracketed sentence in paragraph 3.12.2.2.

Respondents' views

NGC issued a consultation document on the Proposed Amendment on 3 October 2003 inviting responses from CUSC parties and interested parties by 31 October 2003.

NGC received four responses to the CAP054 consultation document. Three respondents supported the Proposed Amendment. These respondents considered that it would ensure consistency between the CUSC and the Charging Methodology and therefore enable NGC to discharge its Transmission Licence obligations more efficiently. The fourth did not support CAP054 as it opposed the corresponding Charging Methodology Modification Proposal UoSCM-M-11.

One response sought clarification on a section of the proposed new CUSC text regarding the lack of detail concerning notional payments. The respondent argued that it is unclear whether the suggested notional amount for the Year Round Generation Charge will be based on TEC. To aid clarity, NGC edited the original text in one paragraph and this created the Alternative Amendment.

The respondents' views are summarised and contained on pages 7 and 8 of the Amendment Report.

Amendments Panel Members' views

No formal responses have been submitted by members of the Amendments Panel.

NGC's recommendation

NGC considers that Proposed Amendment CAP054 will bring the CUSC into line with changes to the Charging Methodologies introduced by UoSCM-M-11, and therefore would better facilitate achievement of the Applicable CUSC Objectives. However, NGC also believes that the minor textual change within the Alternative Amendment bring greater clarity to users. NGC therefore recommends to the Authority that:

- ◆ should UoSCM-M-11 not be vetoed the Alternative Amendment be approved;
- ◆ should UoSCM-M-11 not be vetoed and the Alternative Amendment be rejected, the Proposed Amendment be approved; and
- ◆ should UoSCM-M-11 be vetoed, neither the Alternative Amendment or the Proposed Amendment be approved.

Following consideration of respondent's views in regard to its consultation on UoSCM-M-11, NGC decided not to propose any change to the Charging Methodologies and did not refer UoSCM-M-11 to the Authority for decision.

Ofgem's view

Ofgem considers, having had regard to its statutory duties, that CAP054 would not better facilitate achievement of the Applicable CUSC Objectives.

CAP054 was proposed in order to ensure consistency between the CUSC and Charging Methodologies, in the event that UoSCM-M-11 were implemented. Ofgem considers that, as this Amendment Proposal has not been progressed by NGC, approval of either the Proposed or Alternative Amendment would not better facilitate achievement of the Applicable CUSC objectives.

The Authority's Decision

The Authority has decided to reject both the Proposed Amendment and the Alternative Amendment.

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the above number.

Yours sincerely,

A handwritten signature in black ink that reads "A Walker". The signature is written in a cursive style with a large initial 'A'.

Andrew Walker
Director of Transmission

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