



Direct Dial: 020-7901-7478

5 March 2004

National Grid Company, CUSC Signatories and
Other Interested Parties

Your Ref: CAP053
Our Ref: IND/COD/CUSC/CAP053

Dear Colleague

Amendment to the Connection and Use of System Code (CUSC) - Decision and Direction in relation to Proposed Amendment CAP053: Reconciliation of Site Specific Maintenance Charges.

The Gas and Electricity Markets Authority (the Authority¹) has carefully considered the issues raised in the Amendment Report² in respect of Proposed Amendment CAP053, Reconciliation of Site Specific Maintenance Charges.

National Grid Company plc (NGC) recommended to the Authority on 14 November 2003 that the Proposed Amendment be approved if the associated Connection Charging Methodology Modification 07 (CCM-M-07)³, Implementation of Plugs – Change to Connection Boundary and associated removal of Land Charges and Type B Termination Charges were not to be vetoed by Ofgem.

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

² CAP053 Amendment Report dated 14 November 2003.

³ Details of Connection Charging Methodology Modification-07: "Implementation of "PLUGS" – Change to Connection Boundary and associated removal of Land Charges and Type B Termination Charges and Change to Calculation of Site Specific Maintenance Charges" can be found on the NGC website at <http://www.nationalgrid.com/uk/indinfo/charging/>

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 direct a modification to the CUSC in respect of Proposed Amendment CAP053.

This letter explains the background to Proposed Amendment CAP053, including the relationship with CCM-M-07, and sets out the Authority's reasons for its decision.

In addition, this letter contains a direction to NGC to modify the CUSC in respect of Proposed Amendment CAP053. This letter constitutes the Notice by the Authority under section 49A of the Electricity Act 1989 in relation to the direction.

Background

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

NGC issued an initial consultation on changes to its Charging Methodologies in July 2003, outlining its conclusions from the transmission charging review. NGC indicated a number of proposed amendments to the Connection Charging Methodology for implementation with effect from 1 April 2004. NGC raised a formal modification, CCM-M-07, to implement changes to the boundary between connection and use of system assets on 12 September 2003. Among other things, CCM-M-07 proposed to remove Site Specific Maintenance charges from the Connection Charging Methodology.

Proposed Amendment CAP053 was raised by NGC and submitted to the CUSC Amendments Panel (the Panel) for consideration at the 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.

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:

(a) 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.

On the 19th December 2003 Ofgem decided not to veto CCM-M-07⁶, and NGC's Connection Charging Methodology will therefore be amended from 1 April 2004.

The Proposed Amendment

CAP053 removes text relating to Site Specific Maintenance charges from the CUSC. When CCM-M-07 is implemented, Site Specific Maintenance charges will no longer be charged as an element of users' connection charges. Removing the text relating to Site Specific Maintenance charges from CUSC will therefore ensure that the CUSC is aligned with the Connection Charging Methodology.

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 consultation document. Three respondents supported the Proposed Amendment. These three respondents agreed that CAP053 would better facilitate achievement of the Applicable CUSC Objectives, would ensure consistency between the CUSC and the Charging Methodologies and would therefore enable NGC to discharge its Transmission Licence obligations more efficiently. The fourth respondent made no comment on CAP053, but re-iterated its opposition to the corresponding Charging Modification proposal CCM-M-07. NGC's summary of respondents' views is contained on page 6 of the CAP053 Amendment Report.

Amendments Panel Members' views

No formal responses were submitted by members of the Amendments Panel.

NGC's recommendation

NGC considers that Proposed Amendment CAP053 would bring the CUSC in line with Charging Methodology Proposal CCM-M-07. NGC therefore considers that Proposed Amendment CAP053 would better facilitate achievement of the Applicable CUSC Objectives. NGC recommends the Authority to:

- ◆ approve Proposed Amendment CAP053 with implementation on 1 April 2004 if CCM-M-07 is not vetoed; or
- ◆ reject Proposed Amendment CAP053 if CCM-M-07 is vetoed.

⁶ Ofgem's decision document can be found on its website at www.ofgem.gov.uk

Ofgem's view

Ofgem considers, having had regard to its statutory duties, that the Proposed Amendment would better facilitate achievement of the Applicable CUSC Objectives compared to the existing CUSC.

On 19 December 2003, Ofgem issued a decision letter regarding CCM-M-07 setting out that it was not going to veto the Modification. Ofgem considered that the changes proposed in CCM-M-07 would reduce the possibility for discrimination in connections and improve cost-reflective of charging.

As explained above, when CCM-M-07 is implemented as of 1 April 2004, NGC will no longer charge its users for Site Specific Maintenance via connection charges. Ofgem considers that the changes to the CUSC proposed in CAP053 appropriately reflect the change to NGC's Connection Charging Methodology with respect to the removal of land charges and therefore aid NGC in discharging its licence obligation to keep its charging methodologies under review. Ofgem therefore considers that Proposed Amendment CAP053 will better facilitate achievement of Applicable CUSC Objective (a).

Accordingly Ofgem considers that Proposed Amendment CAP053 should be approved and implemented, consistent with the implementation date for CCM-M-07, as of 1 April 2004.

BETTA and GB Wide Consultation

On 17 January 2003, Ofgem wrote to the chairmen of the Balancing and Settlement Code Panel and the Connection and Use of System Code Amendments Panel to explain that Ofgem would consider whether to consult on Modifications on a GB wide basis following the second reading in Parliament of the Bill necessary to introduce BETTA. Ofgem wrote to the chairmen again on 5 December, giving further guidance on the process for consultation leading up to BETTA⁷. The draft Energy Bill, which will enable the introduction of BETTA, had its second reading in Parliament on 11 December 2003⁸.

Ofgem will consider, on a case by case basis, whether proposals to modify the CUSC merit GB wide consultation prior to making its decision. Wherever possible, Ofgem intends to conduct

⁷ These letters are available on Ofgem's website at <http://www.ofgem.gov.uk/ofgem/work/index.jsp?section=/areasofwork/bettagbcons>

⁸ See Hansard available from http://www.parliament.the-stationeryoffice.co.uk/pa/ld199697/ldhansrd/pdvn/lds03/text/31211-01.htm#31211-01_head0

GB wide consultations in parallel with NGC's consultation, to allow Ofgem to have view of any GB representations when making its decision on Modification Proposals.

Ofgem decided not to consult GB wide on CCM-M-07 and UoSCM-M-10 as NGC is in the process of conducting a GB wide consultation on GB Charging Methodologies, which includes the proposed changes in CCM-M-07 and UoSCM-M-10⁹.

The Authority's Decision

The Authority has decided to direct that Proposed Amendment CAP053, as set out in the Amendment Report, should be made and implemented from 1 April 2004.

Direction under Condition C7F.7(a) of NGC's Transmission Licence

Having regard to the above, the Authority, in accordance with Condition C7F.7(a) of the licence to transmit electricity treated as granted to NGC under Section 6 of the Electricity Act 1989 as amended (the "Transmission Licence"), hereby directs NGC to modify the CUSC in respect of the Proposed Amendment, as set out in the Amendment Report.

The modification is to be implemented and take effect from 1 April 2004.

In accordance with Condition C7F.7(b) of NGC's Transmission Licence, NGC shall modify the CUSC in accordance with this direction of the Authority.

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,



Andrew Walker
Director of Transmission

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

⁹ NGC's consultation document was issued 16 December and is entitled "GB Transmission Charging: Initial Thoughts". It is available from NGC's website at http://www.nationalgrid.com/uk/indinfo/charging/pdfs/NG_GB_Charging_Initial_Thoughts.pdf. NGC has invited responses by 30 January 2004.