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17 April 2002

The National Grid Company plc
National Grid House
Kirby Corner Road
Coventry
CV4 8JY

Your Ref: CAP015

Our Ref: IND/COD/CUSC/CAP015

Dear NGC, Connected Parties, Customers and Other Interested Parties,

Amendment to the Connection and Use of System Code (“CUSC”) - Decision and Direction in relation to Proposed Amendment CAP015: “Removal of Redundant Text from Section 9.10.4”.

The Gas and Electricity Markets Authority (the “Authority”)¹ has carefully considered the issues raised in Proposed Amendment CAP015 “Removal of Redundant Text from Section 9.10.4”.

The National Grid Company plc (“NGC”) has recommended to the Authority that Proposed Amendment CAP015 be approved and implemented with effect from 5 days after the Authority’s decision or 1 April 2002 (whichever is the later date).

The Authority has decided to direct a modification to the CUSC.

This letter explains the background to Proposed Amendment CAP015 and sets out the Authority’s reasons for its decision. In addition, the letter contains a direction to NGC to modify the CUSC as set out in the Proposed Amendment. This letter constitutes the notice by the Authority under section 49A Electricity Act 1989 in relation to the direction.

Background to the Proposal

Paragraph 9.10.4 of the CUSC deals with, among other things, the process relating to the preparation of Transmission Network Use of System (TNUoS) Reconciliation Statements relating to Interconnectors. The paragraph currently makes a distinction between pre and post-NETA reconciliation processes. In addition, a distinction is also made between TNUoS charges for Financial Years ending on or before 31 March 2000 and those for Financial Years subsequent to this date.

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

In view of NETA "Go-live" on 27 March 2001, the Proposer believes that the distinction between pre and post-NETA reconciliation charges is no longer required and can be removed. Furthermore, as Final Reconciliation for all Financial Years ending on or before 31 March 2000 is now complete, the Proposer believes that the distinction between TNUoS charges for Financial Years ending on or before 31 March 2000 and those for Financial Years subsequent to this date is no longer required and can also be removed.

The Proposer believes that the removal of the redundant text will improve the clarity of the CUSC documentation thereby enabling NGC to more easily and efficiently discharge its obligations under the Act and the Transmission Licence and to facilitate 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.²

Proposed Amendment CAP015 was raised by NGC on 13 February 2002 and submitted for consideration at the CUSC Amendments Panel Meeting on 22 February 2002. At the meeting the Panel determined that Proposed Amendment CAP015 should proceed to wider industry consultation. A Consultation Document was issued on 28 February 2002 with responses welcomed by 15 March 2002. Following the consultation, a draft Amendment Report was circulated for comment on 19 March 2002 with responses welcomed by 27 March 2002. A Final Amendment Report was submitted to the Authority on 28 March 2002.

The Proposed Amendment

Proposed Amendment CAP015 seeks to remove paragraph 9.10.4.1(a), the amalgamation of paragraphs 9.10.4.1(b) and 9.10.4.1(c), the modification of paragraphs 9.10.4.2 and 9.10.4.4 and the removal of two definitions from Section 11 of the CUSC.

Paragraph 9.10.4.1(a) relates to the reconciliation of TNUoS charges for Financial Years ending on or before 31 March 2000. Final reconciliation of 1999/2000 TNUoS charges is now complete and therefore Proposed Amendment CAP015 seeks to remove the redundant paragraph.

Paragraphs 9.10.4.1(b) and 9.10.4.1(c) distinguish between pre-NETA and post-NETA TNUoS reconciliation. This distinction is no longer required for the purposes of TNUoS

² The Applicable CUSC Objectives are contained in Condition C7F of 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
- (b) 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.

reconciliation and therefore Proposed Amendment CAP015 seeks to combine the two paragraphs.

Section 9.10.4 distinguishes between pre-NETA and post-NETA TNUoS reconciliation through using the terminology 'Notional Amount A' and 'Actual Amount A' to refer to charges relating to Financial Years ending on or before 31 March 2000, and 'Notional Amount B' and 'Actual Amount B' to refer to charges relating to Financial Years post-NETA. Proposed Amendment CAP015 seeks to remove all instances of 'Notional Amount A' and 'Actual Amount A' in Section 9.10.4 and to change all instances of 'Notional Amount B' and 'Actual Amount B' to 'Notional Amount' and 'Actual Amount' respectively. In addition the Proposed Amendment seeks to remove the definitions of 'Actual Amount A' and 'Actual Amount B' from Section 11 of the CUSC.

In line with this, similar references to redundant text are being made in the update of the Statement of Use of System Charging Methodology document for April 2002.

NGC issued a Consultation Document on 28 February 2002 for views from CUSC Parties and interested parties. The Proposed Text to Modify the CUSC included in Annex 2 of the CAP015 Consultation Document includes a text change that has not been marked as such. Paragraph 9.10.4.2 in the CUSC begins "As soon as reasonably practicable and in any event by 30 April in each Financial Year...", whereas in the Proposed Text to Modify the CUSC the same paragraph begins "As soon as reasonably practicable and in any event by 31 March in each Financial Year". NGC confirmed that the unmarked date change was an error, and that Paragraph 9.10.4.2 of the Proposed Text to Modify the CUSC should begin "As soon as reasonably practicable and in any event by 30 April in each Financial Year...".

It is Ofgem's view that only those changes that are actually indicated as such can be considered as part of the Proposed Amendment.

Respondents' Views

NGC received three responses to the consultation on Proposed Amendment CAP015, all of which were supportive of the Proposed Amendment. None of the responses to the consultation commented on the unmarked change of date from 30 April to 31 March.

One respondent suggested that a clearer description of the defined terms 'Actual Amount' and 'Notional Amount' should be included in Section 11 of the CUSC. The respondent also indicated that a review of Section 11 by NGC with the intention of improving the appropriate definitions within the CUSC documentation would be a welcome initiative and should be implemented as soon as possible.

A separate respondent noted that, at the February CUSC Amendment Panel meeting, the Panel had suggested that 'housekeeping' amendments be notified to the Panel but not raised as individual Amendment Proposals. It was suggested that instead such proposals should be

kept back until a reasonable 'package' was accumulated for an aggregated housekeeping Amendment Proposal to be raised. In response to this the respondent cautioned that such housekeeping proposals must be placed in the public domain in a timely fashion in order that the industry be made aware of the anomalies to be addressed.

The respondents' views are summarised and contained in the Amendment Report for Proposed Amendment CAP015 dated 28 March 2002.

NGC's Recommendation

NGC recommended that the Authority should approve Proposed Amendment CAP015 and that if approved the Proposed Amendment should be implemented with effect from 5 days after the Authority's decision or 1 April 2002 (whichever is the later date).

Panel's Recommendation

The Panel recommended that the Authority should approve Proposed Amendment CAP015 and that if approved the Proposed Amendment should be implemented with effect from 5 days after the Authority's decision or 1 April 2002 (whichever is the later date).

Ofgem's View

Ofgem considers, having had regard to its statutory duties, that Proposed Amendment CAP015 will better facilitate the achievement of the Applicable CUSC Objectives. Improving clarity and removing uncertainty from the CUSC documentation will better facilitate the achievement of Objective C7F.1(a) for the efficient discharge by NGC of the obligations imposed upon it under the Act and by the Transmission Licence and the achievement of Objective C7F.1(b) to facilitate effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitate such competition in the sale, distribution and purchase of electricity.

Ofgem agrees with the Panel's recommendation that Amendment Proposal CAP015 should be implemented with effect from 5 days after the Authority's decision.

The Authority's Decision

The Authority has therefore decided to direct that Proposed Amendment CAP015 should be made and implemented.

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 as set out in Proposed Amendment CAP015.

The modification is to take effect from 5 days after the Authority's decision.

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,

A handwritten signature in black ink, appearing to read 'A. N. Simpson', written over a horizontal line.

Nick Simpson

Director of Industry Code Development

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