

09 January 2001

Our Ref:
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Dear Sir or Madame,

Approval of NGC's Connection and Use of System Charging Methodologies

Under the proposed condition 10 of NGC's Transmission Licence, as published in Ofgem's December document¹, NGC is required to determine and conform to a Use of System Charging Methodology approved by Ofgem. NGC must also prepare a statement of that Use of System Charging Methodology also to be approved by Ofgem. Proposed Licence condition 10B places the same obligations on NGC with respect to a connection charging methodology.

NGC published its final draft versions of the Statements of the Connection and Use of System Charging Methodologies on 19 December 2000. These Statements incorporated changes to charging principles from April 2001 as notified in NGC's November Charging Letter. The Statements are now available on the NGC website (www.nationalgrid.com/uk/). The publication of these draft documents marks the end of NGC's consultation process on the content of the charging methodologies and associated statements². The charging statements (and charging methodologies) are now subject to approval by Ofgem. Approval must be granted by the time the proposed licence conditions take effect i.e. CUSC Go-Live.

The process by which Ofgem will approve both the charging methodologies and statements was explained in the December document. Before Ofgem gives its approval it must be satisfied that the charging methodologies meet the Relevant Objectives as defined in the proposed licence conditions 10 and 10 B. The Relevant Objectives for the Use of System Charging Methodology are:

- that compliance with the Use of System Charging Methodology facilitates effective competition in the generation and supply of electricity and (so far is consistent

¹ December 2000, *NGC's Connection and Use of System Code: Further Proposed Licence Changes*

² NGC will be making formatting changes to the document over the coming months to including adding an index and a foreword as well as updating the correspondence section.

therewith) facilitates competition in the sale, distribution and purchase of electricity;

- that compliance with the Use of System Charging Methodology results in charges which reflect, as far as is reasonably practicable, the costs incurred by the Licensee in its Transmission Business; and
- that, so far as is consistent with the above objectives, the Use of System Charging Methodology, as far as is reasonably practicable, properly takes account of the developments in the Licensee's Transmission Business.

The Relevant Objectives for the Connection Charging Methodology include all those for Use of System plus the following;

- so far as is consistent with the above [Use of System Relevant Objectives], of facilitating competition in the carrying out of works for connection to the Licensee's Transmission System.

If, following consideration of the charging methodologies, Ofgem believe that areas of one or both charging methodologies do not meet the Relevant Objectives, approval will not be given until the methodologies are amended accordingly. CUSC will not be implemented until the charging methodologies are approved.

Further Ofgem may consider that although all areas of both the charging methodologies do meet the Relevant Objective, some areas could better meet the Relevant Objectives if they were amended. In this situation NGC will be expected to take the appropriate measures to ensure that the identified areas of the charging methodologies are reviewed to consider whether amendment would better meet the Relevant Objectives.

Additionally NGC will be obliged by proposed licence conditions 10A(1) and 10B(2) to keep constantly under review the Use of System and Connection Charging Methodologies for the purposes of ensuring that they achieve the Relevant Objectives and propose modifications which would better meet these objectives.

Views invited

Ofgem invites views as to whether all areas of both charging methodologies meet the Relevant Objectives or could better meet the Relevant Objectives. Responses should arrive no later than **9th February 2001**

Replies should be sent to;

Haren Thillainathan

Regulation and Financial Affairs

The Office of Gas and Electricity Markets

9 Millbank

London SW1P 3GE

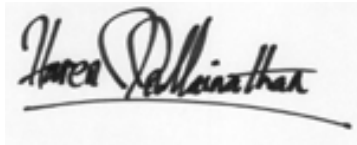
Electronic responses should be sent to haren.thillainathan@ofgem.gov.uk

Unless clearly marked 'confidential' responses will be published by placing them in the Ofgem library.

The Way Forward

All responses will be considered by Ofgem along with other factors, in assessing whether the charging methodologies meet the Relevant Objectives. The final decision regarding approval of the charging methodologies will be explained in a "Decision Paper" which will be placed on NGC's website. It is presently anticipated that the Decision Paper will be published in early March 2001. The decision paper will discuss the responses to this consultation.

Yours sincerely

A handwritten signature in black ink, reading "Haren Thillainathan", with a horizontal line underneath.

Haren Thillainathan
Manager, Transmission Pricing