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value for all customers*

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5 August 2004

Dear Chris,

### **BETTA: GB Transmission Charging Process**

I am writing to you to set out the process that Ofgem envisages being followed to reach a decision on the GB transmission charging methodologies as part of the project to introduce British Electricity Transmission and Trading Arrangements (BETTA).

As part of the BETTA project National Grid Company Plc ("NGC"), in its role as initial GB system operator, has been undertaking a consultation process to establish the contractual arrangements for a GB wholesale electricity market. On 16 December 2003 NGC published its Initial Thoughts consultation<sup>1</sup>. Having considered respondents' views this was followed on 8 April 2004 by NGC's Initial Methodologies Consultation<sup>2</sup>.

The next step in this process is for NGC to publish its final proposals on transmission charging for consultation. Having incorporated respondents' view this should be followed by the submission to the Authority of the Charging Methodology Statements for approval. Ofgem would expect NGC to submit certain information in support of its Statements which should include at a minimum a summary of the process adopted to reach its decision and the basis of its proposals in terms of meeting its relevant licence objectives and in the context of respondents' views.

From an Authority perspective given that the decision on whether to approve or reject NGC's final proposals would constitute an 'important' decision as defined under section 5A of the Utilities Act, Ofgem intends to publish an Impact Assessment on the transmission charging proposals. Amongst other things this assessment will be informed by how any proposal might better facilitate the achievement of the relevant objectives of NGC's licence and the Authority's wider statutory duties. Parties will have the opportunity to comment on the Impact Assessment

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<sup>1</sup> GB Transmission Charging: Initial Thoughts – NGC, 16 December 2003

<sup>2</sup> GB Transmission Charging: Initial Methodologies Consultation – NGC, 8 April 2004



and these comments will feed into the final decision to be taken by the Authority on whether to approve or reject NGC's Charging Statements.

In its December conclusions paper on transmission charging Ofgem had set out a rough timetable for developing GB transmission charging proposals. This had envisaged the Authority's decision on the charging methodologies being reached in October. However, that timetable had not incorporated the requirement to develop an Impact Assessment which was identified with the subsequent introduction of the Sustainable Energy Act. In light of factoring this additional step into the process, Ofgem now envisages the following timetable to reach the Authority's decision:

1. NGC publishes final proposals for consultation by mid-August
2. NGC submits its charging methodologies for approval by mid-September
3. Informed by NGC's proposals Ofgem publishes an Impact Assessment for 28-day consultation by mid-September
4. Decision by the Authority in late November

In the event that the response to the Impact Assessment or to NGC's final proposals necessitate further consideration, thereby making it impossible for the Authority to reach a decision by November, the decision may be delayed.

Ofgem notes that under the relevant existing licence conditions for England and Wales, which Ofgem has proposed will continue for ongoing modifications to the GB charging methodologies, the Authority has a window of 28 days within which to veto a proposed change to the charging methodologies. The licence is however silent on the process to be adopted in establishing new methodologies, which the GB arrangements would constitute from 1 April 2005 and the 28 day window is therefore not applicable in this case. Given the timing necessary to complete a comprehensive Impact Assessment which Ofgem considers is an integral part the decision making processes, it is envisaged, at this stage, a decision being reached by the Authority on NGC's charging proposals in late November. Ofgem would welcome NGC's views on this proposal.

For the purpose of providing transparency to members of the industry this letter has today been published on Ofgem's website.

Yours sincerely

A handwritten signature in black ink, appearing to read 'David Haldearn', with a long horizontal flourish extending to the right.

David Haldearn  
Director Scotland & Europe