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6 April 2005

Dear Chris,

Approval of National Grid Company plc's Statement of the Use of System Charging Methodology, Statement of the Connection Charging Methodology and the form of the Statement of Use of System Charges 2005/6

This letter sets out the Authority's decisions to approve the Statement of the Use of System Charging Methodology, the Statement of the Connection Charging Methodology and the form of the Statement of Use of System Charges as submitted by the National Grid Company plc ("NGC") to the Authority on 18 March 2005.

Background

The transmission arrangements under BETTA provide for NGC in its capacity as GB system operator to levy charges on transmission users for connecting to and using the GB transmission system. These charges are required to be consistent with its charging methodologies.

Under the terms of its Electricity Transmission Licence Standard Licence Conditions (SLC) paragraph 2(a) of SLC C4 and paragraph 4 of SLC C6, NGC is required to prepare as soon as practicable after the date on which these conditions came into effect a Statement of the Use of System Charging Methodology and a Statement of the Connection Charging Methodology and to have those statements approved by the Authority. In addition under paragraph 2(b) of SLC C4 NGC is also required to prepare as soon as practicable after the date on which these conditions came into effect a Statement of Use of System Charges, calculated in accordance with the approved methodology, and in a form approved by the Authority.

Following an extensive consultation process the Authority approved NGC Connection Charging Methodology proposals in December 2004 and its Use of System Charging Methodology proposals in February 2005. On 18 March 2005 NGC submitted the statements of its charging

methodologies to the Authority for approval. The process NGC followed in developing its GB charging statements is set out on its website at the following address:
www.nationalgrid.com/uk/indinfo/betta/gb_consultations.html

Authority's comments

The Authority has assessed whether the draft Statement of the Use of System Charging Methodology and the draft Statement of Connection Charging Methodology submitted to the Authority by NGC are accurate descriptions of the approved methodologies. Further, in accordance with paragraphs 2(b) of SLC C4 and paragraph 4 of SLC C6, the Authority has considered whether the Statement of Use of System Charges and Statement of Connection Charging Methodology are "... in such form and in such detail as shall be necessary to enable any person to determine that the charges to which he would become liable for the provision of such services are in accordance with such statement". In undertaking its assessment of NGC's draft statements the Authority has considered that its audience is likely to comprise of current and prospective users of the GB transmission systems.

The Authority notes the process of consultation undertaken by NGC in developing these draft statements, as described by NGC in its submission of the statements to the Authority and documented on NGC's website. The Authority is content that the issues raised by respondents to NGC's consultation have been addressed appropriately by NGC (as described in the schedule of comments and associated changes in respect of each statement published by NGC on its website) in developing the versions of the statements submitted to the Authority for approval.

The Authority has concluded that, having regard to NGC's consultation process and the associated consultation responses, the Statement of the Use of System Charging Methodology and the Statement of Connection Charging Methodology submitted to the Authority for approval by NGC are accurate descriptions of the approved methodologies. The Authority has also concluded that the Statement of Connection Charging Methodology and Statement of Use of System Charges are "... in such form and in such detail as shall be necessary to enable any person to determine that the charges to which he would become liable for the provision of such services are in accordance with such statement".

Points of detailed clarification

The Authority has identified and set out in Annex 1 to this letter a number of specific areas where it considers NGC's statements of charges would benefit, in the Authority's view, from further clarification. For the avoidance of doubt the approval of NGC's statements is not dependent on NGC making these changes. However, the Authority would expect NGC to consider these points carefully and, if appropriate, revise its statements accordingly in due course.

For the avoidance of doubt, the identification of specific areas by the Authority where further clarification might be appropriate does not in any way detract from the obligations on NGC to revise the form of the Statement for the Use of System Charging Methodology and Statement of Use of System Charges pursuant to paragraph 8 of SLC C4 (including following any modifications to the Use of System Charging Methodology pursuant to SLC 5) or the obligations on NGC to make revisions to the Statement of the Connection Charging Methodology pursuant to SLC C6.

The Authority's decisions

In accordance with paragraphs 2(a) and 2(b) of SLC C4 of the Electricity Transmission Licence of NGC, the Authority hereby approves the Statement of the Use of System Charging Methodology and the form of the Statement of Use of System Charges as forwarded electronically to the Authority on 18 March 2005.

In accordance with paragraph 4 of SLC C6 of the Electricity Transmission Licence of NGC, the Authority hereby approves the Statement of the Connection Charging Methodology as forwarded electronically to the Authority on 18 March 2005.

This letter constitutes the notice of the Authority's reasons for the purposes of section 49A of the Electricity Act 1989.

Yours sincerely

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

David Haldearn

Duly authorised on behalf of the Authority

Cc: Stuart Easterbrook - NGC

Annex 1: Points of detailed clarification

Statement of Use of System Charges

No comments.

Statement of Use of System Charging Methodology

- Page 8 (para 1.5) - should highlight the number of GB charging zones
- Page 11 (para 2.6) - should clarify the future use of GB SYS data
- Page 14 (para 2.23) - grammatical error, remove “vis”
- Page 18 (para 2.39) - paragraph and formula are misleading as they suggest that the total revenue recovery is reduced by the application of the small gens discount when what it means is the revenue may be affected by any under or over recover of the discount in the previous year
- Page 21 (para 3.2) - sentence is unclear. It should read “...as outlined in Chapter 2: Derivation of the TNUoS Tariff”
- Page 21 (para 3.3) - missing heading “STTEC”
- Page 24 (para 4.9) - should clarify that any under recovery from the small gens discount should be recovered from all GB demand tariffs
- Page 25 (para 4.13) - missing heading “Monthly Charges”
- Page 32 (para 7.1) - should note users can opt to pay “... a fixed application fee”. Further it does not clarify how a fixed fee will be determined.
- Page 40 (point vii) - should clarify the demand tariffs can be subject to change as a result of “... the application of a discount for small generators”. As drafted this meaning is unclear.
- Pages 85 and 87 - GB Transmission System is defined twice.

Statement of Connection Charging Methodology

- Page 13 (para 2.18) an explanation of the calculation of the Transmission Running Costs factor would be helpful. This has been provided in previous drafts.