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Promoting choice and
value for all customers

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Dear Patrick,

Fulfilment of conditions attached to the Authority's approval of the GB transmission use of system charging methodology

Thank you for your letter of 4 April 2006 which seeks confirmation that the Authority considers NGET has fulfilled the requirements of charging condition 5 attached to the Authority's approval of the GB transmission use of system charging methodology.

When the Authority approved NGET's proposed GB use of system charging methodology in February 2005, it attached five conditions to that approval. Each of those conditions related to future actions to be taken by NGET which the Authority considered might reasonably be expected to promote further the attainment of the relevant objectives.¹ Charging condition 5 required NGET to "...publish information at least once a year on the forecast future (at least five years) path of tariffs under a range of credible generation and demand scenarios (consistent with those already contained in the Seven Year Statement) as soon as practicable, and no later than April 2006". The reason for the imposition of this condition was to better facilitate effective competition by increasing transparency.

¹ The relevant objectives for the use of system charging methodology, as contained in paragraph 5 of standard licence condition C5 of NGET's transmission licence are:

- (a) that compliance with the use of system charging methodology facilitates effective competition in the generation and supply of electricity and (so far as is consistent therewith) facilitates competition in the sale, distribution and purchase of electricity;
- (b) that compliance with the use of system charging methodology results in charges which reflect, as far as is reasonably practicable, the costs (excluding any payments between transmission licensees which are made in accordance with the STC) incurred by the licensee in its transmission business; and
- (c) that, so far as is consistent with sub-paragraphs (a) and (b), the use of system charging methodology, as far as is reasonably practicable, properly takes account of the developments in transmission licensees' transmission businesses.



Ofgem notes that, in developing a proposal NGET:

- published an information paper setting out a forecast of future tariffs for the years 2006/7 to 2010/11
- invited views on the paper at the Transmission Charging Methodologies Forum (TCMF) in December 2005
- identified, in consultation with industry, an approach for the future publication of this information each July based on Seven Year Statement data; and
- concluded that the form of future reports would be discussed and agreed at the TCMF between NGET and industry participants.

On this basis it is Ofgem's view that NGET has met the requirements of charging condition 5 in the current year. Ofgem stresses that charging condition 5 places an ongoing requirement on NGET. However, if NGET continues to publish information in the manner set out above, Ofgem considers this would constitute compliance with charging condition 5 on an ongoing basis.

In the interests of providing transparency to users of the transmission system this letter has today been published on Ofgem's website.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Robert Hull', written in a cursive style.

Robert Hull
Director of Transmission