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Promoting choice and value for all customers

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Dear Hêdd,

Fulfilment of conditions attached to the Authority's approval of the GB transmission charging methodologies – GB charging condition 3

In approving NGET's proposed GB use of system charging methodology in February 2005, the Authority 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]

The third of these conditions ('charging condition 3') required NGET to "review, invite views and to consult on alternative methods of treating intermittent generation (such as wind-farms) in the use of system charging methodology. If the review identifies potential improvements to the existing methodology to bring forward proposals to modify the use of system methodology in this regard consistent with implementation in April 2007. In the event that NGET concludes that there are no further improvements, NGET should publish a report setting out the conclusions of the review". The motivation for the imposition of this condition was concerns expressed by a number of users that all generation, renewable and conventional, had been assumed to be generating at full capacity at system peak and thus imposing the same costs on the system. Some argued this was an inappropriate assumption for generators with low load factors such as renewable generation.

[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 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.

It is Ofgem's view that the requirements of charging condition 3 have been met. In reaching that view, Ofgem noted that, in undertaking its review NGET:

- invited views on a range of alternative options at the Transmission Charging Methodologies Forum
- published a questionnaire that invited views on a wide range of different solutions; and
- published a report[2] setting out the conclusions of the review.

As part of this review, NGET considered the treatment of intermittent generation under the current GB Security and Quality of Supply Standard ('GB SQSS'). We note that NGET has concluded that there is no systematic difference in investment provided for intermittent generation compared to conventional generation. We also note that the basis of NGET's review was that:

- all generation customers get the same access product (unless the customer has requested specific design variation); and
- investment decisions are informed by NGET applying the minimum criteria defined in the GB SQSS and considering the costs of withdrawing access rights.

In light of this review and for the reasons set out in detail in its published report, NGET has therefore not proposed to make any changes to the use of system charging methodology at this stage.

We note that NGET is currently carrying out a separate review of how individual categories of generation are dealt with in the GB SQSS including intermittent generation. Should NGET establish that the existing GB SQSS does not adequately provide for intermittent generation, then we would expect NGET to consider changes to the GB SQSS at the earliest opportunity. We would also expect NGET to consider the impact of any proposals to change the GB SQSS on its GB use of system charging methodology.

In addition, we also note the ongoing work of the Transmission Working Group (TWG) and in particular the study being undertaken to review the current transmission planning and operating standards to assess their applicability with growing levels of intermittent generation. Given NGET are represented at TWG, we would expect NGET to fully consider the relevance of the findings of that review including the justification for any changes to the GB SQSS.

Finally, standard licence condition C5 of NGET's licence requires it to keep the use of system charging methodology under review at all times and to make proposals to modify the methodology as required with a view to the methodology better achieving the relevant objectives. We therefore expect that NGET will continue to consider whether further developments in this area could better facilitate achievement of the relevant objectives.

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

[2] www.nationalgrid.com/NR/rdonlyres/459CB43B-5098-4F4E-9240-E969B713EE7B/9239/Condition3reportfinal.pdf

Yours sincerely,

Robert Hull
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