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Dear Rachel,

National Grid Electricity Transmission (NGET) welcomes the opportunity to respond to Ofgem's consultation on a common methodology for electricity Distribution Network Operator (DNO) use of system charges and the related governance arrangements. NGET owns the electricity transmission system in England and Wales and is the GB System Operator.

## **Common Methodology**

National Grid supports Ofgem's decision that a common charging methodology should be developed for DNOs. A common charging methodology will make distribution use of system charges simpler to understand and will enable modifications to the methodology to be developed more efficiently. This will give improved transparency and reduced analytical costs to industry participants.

We agree that a common methodology will promote connection to networks based on sound economic and technical reasons rather than incentives from discrepancies in charging arrangements. National Grid provides signals to embedded generators through our Transmission Network Use of Systems charges. The signal given by our charges would have improved clarity with the introduction of a consistent charging methodology for all distribution networks.

Under the future offshore arrangements the concept of embedded transmission will be introduced to the industry. Under these new arrangements National Grid as GBSO will become a DNO customer. Facing charges calculated from a common charging methodology will reduce potential complexity in analysing and understanding these charges.

## **Principles of the Methodology**

National Grid agrees with the methodology principles and assessment of the models set out in Annex 2. The principles of the DNO charging methodology should where practicable be consistent with transmission charging methodology to ensure efficient signals are given to users.

## **Governance Arrangements**

Our preferred option for the governance of a common DNO charging methodology is Option 2: Modify the current DNO licence. This option would give an efficient method of governance and is most consistent with other industry charging methodologies. The current charging methodology governance processes in Gas Transmission, Electricity Transmission and Gas Distribution are robust, transparent and inclusive. Industry forums have been established where any interested party can attend to express their views, suggestions and or concerns.

The DNO charging methodology will have broad impacts on the market however we have concerns in allowing market participants to propose modifications to the Charging Methodology and foresee potential issues such as modifications which are raised within year that impact upon charges which are typically set annually. Allowing market participants to propose modifications could lead to more, less coordinated modifications being proposed than if only the DNOs had this ability. This would increase the level of resource required in this area.

To ensure consistency within the industry, the current comprehensive review of industry code governance arrangements across the gas and electricity sectors must be kept in mind. Consideration of the governance of a common DNO charging methodology should be aligned with the outcomes of the wider governance review.

If you wish to discuss this further or have any queries please contact me on 01926 654196 or Hédd Roberts on 01926 655385.

Yours sincerely

*[By email]*

Sarah Hall