

Stuart Easterbrook  
Transmission Charging Manager  
The National Grid Company plc  
NGT House  
Warwick Technology Park  
Gallows Hill  
Warwick  
CV34 6DA

Your Ref:  
Our Ref:  
Direct Dial: 020 7901 7008  
Email: [andrew.walker@ofgem.gov.uk](mailto:andrew.walker@ofgem.gov.uk)

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Dear Stuart

### **Revision to the Statement of the Use of System Charging Methodology**

The Gas and Electricity Markets Authority (the Authority) has carefully considered the revisions to the Statement of the Use of System Charging Methodology (the Statement) proposed by the National Grid Company plc (NGC) in a letter to Ofgem<sup>1</sup> sent on 29 March 2004.

The Authority considers that the revisions to the Statement better achieve the relevant objectives<sup>2</sup>. This letter explains the background to the proposed revisions and sets out the Authority's reasons for its view.

### **Background to the proposed revision**

The purpose of the Statement is to accurately reflect the Use of System Charging Methodology.

NGC issued a version of the Statement for consultation on 15 March 2004 and, following the incorporation of respondents' views where appropriate, presented a revised version to the Authority on 29 March 2004.

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<sup>1</sup> Ofgem is the administrative office set up to assist the Authority in discharging its statutory responsibilities. The terms 'Ofgem' and 'the Authority' are used interchangeably in this letter.

<sup>2</sup> The relevant objectives 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 the licensee's transmission business.

## **The proposed revision**

The proposed revisions seek to update the Statement so that it accurately reflects the principles of the Use of System Charging Methodology. The Statement has been revised to reflect the approval of the Use of System Charging Methodology Modification 10 (UoSCM-M-10); proposal to amend the methodology for calculation of locational Transmission Network Use of System (TNUoS) tariffs. UoSCM-M-10 modified the Use of System Charging Methodology so that TNUoS charges would be calculated using a DC Load Flow (DCLF) Model. The amendment also introduced forward looking expansion constants, multi voltage expansion factors, a locational security factor and non-locational substation charges.

Revisions consistent with this change have been introduced and obsolete examples removed from the Statement.

## **Respondent's views**

NGC received four responses to its consultation on the draft methodology statements. Of these, three commented on the draft Statement of the Use of System Charging Methodology.

One respondent suggested a number of revisions which it considered would provide improved clarity. These aimed to remove confusion around the use of TEC and Registered Capacity and make consistent the use of the terms price review period and price control. Another respondent requested that a number of sections of the Statement be clarified and called for a more thorough consultation process, with users being notified of all changes to the Statements of the Charging Methodologies, no matter how small. The final respondent requested revisions to sections 2.22 – 2.24 of the Statements to provide details of the method used in calculating expansion factors.

NGC updated the 15 March 2004 draft, where it considered it appropriate to do so, to add clarity to the Statement following user's comments. The final draft of the Statement was submitted to Ofgem for approval on 29 March 2004.

**Ofgem's view**

Ofgem considers that the proposed revisions to the Statement to take account of the changes to TNUoS charges introduced by UoSCM-M-10 from 1 April 2004 reflect the intentions of this modification to the Use of System Charging Methodology. The Authority's reasons for not vetoing UoSCM-M-10 are set out in its decision letter of 19 December 2003. The decision letter can be viewed on NGC's website, which is found at [www.nationalgrid.com/uk/](http://www.nationalgrid.com/uk/).

Ofgem considers that the proposed revisions will better achieve the relevant objectives of the Use of System Charging Methodology.

**The Authority's decision**

Having regard to the above, the Authority does not consider any further action on its part to be necessary and considers the Statement to better achieve the relevant objectives of the Use of System Charging Methodology. The revised Statement of the Use of System Charging Methodology will take effect from 1 April 2004, as indicated by NGC, and will be available from NGC's website.

Yours sincerely

**Andrew Walker**  
**Head of Transmission**

Signed on behalf of the Authority and authorised for that purpose by the Authority