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Dear Stuart

Revisions to the Connection Charging Methodology

The Gas and Electricity Markets Authority (the Authority) has carefully considered the revisions to the Connection Charging Methodology (set out in the the Statement of Connection Charging Methodology) proposed by the National Grid Company plc (NGC).

The Authority is of the view that the proposed revisions are consistent with the intent of modification proposals due to take effect from 1 April 2004 and better achieve the relevant objectives¹. Ofgem does not consider any further action on its part to be necessary. This letter explains the background to the proposed revision and sets out the Authority's reasons for its view.

Background to the proposed revisions

Condition C7B.10b of NGC's transmission licence requires NGC to furnish the Authority with a revised statement showing the changed connection charging methodology and such revised statement of the connection charging methodology shall supersede previous statements of the connection charging methodology. NGC provided this statement when submitting Connection Charging Methodology Modification Proposal 07 (CCM-M-07) 'Implementation of "PLUGS" – Change to Connection Boundary and associated removal of Land Charges and

¹ 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.

Type B Termination Charges and Change to Calculation of Site Specific Maintenance Charges', to the Authority. CCM-M-07 modified the connection boundary so all assets which are shared or could be shared will be charged for via use of system charges rather than connection charges

Ofgem issued its decision letter on 19 December 2003 outlining that it would not veto CCM-M-07. This modification will become part of the connection charging methodology as of 1 April 2004.

NGC is required to keep its charging methodologies under constant review and, consequently, on 15 March 2004, issued a draft version of the connection charging methodology to apply from 1 April 2004 for consultation; in order to ensure that it reflected the changes approved for implementation from 1 April 2004. A revised version of the Statement was sent to Ofgem on 29 March 2004.

The proposed revision

The proposed revisions seek to change the Statement so that it reflects the principles of the Connection Charging Methodology. The changes to the Statement have been necessitated by the change to the connection boundary introduced by CCM-M-07 (as discussed above).

Respondent's views

NGC received responses from four parties in regard to the draft methodology statements. One of these responses suggested changes to the Statement of the Connection Charging Methodology. The respondent requested a revision to the general introduction section of the Statement to enhance its clarity.

The 15 March 2004 draft was subsequently updated to address the user's comment. The final draft of the Statement was submitted to Ofgem on 29 March 2004.

Ofgem's view

Ofgem considers, having had regard to its statutory duties, that the proposed revisions will better achieve the objectives of the Connection Charging Methodology, by properly taking account of the developments in the licensee's transmission business.

Ofgem considers that the revisions relating to CCM-M-07 reflect the intentions of this modification to the Connection Charging Methodology. The Authority's reasons for accepting

CCM-M-07 are set out in its decision letter of 19 December 2003. The decision letter can be viewed on NGC's website (www.nationalgrid.com/uk/).

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 that the proposed revisions to the Statement of the Connection Charging Methodology will better achieve the relevant objectives of the Connection Charging Methodology. The revised Statement of the Connection Charging Methodology will take effect from 1 April 2004 and, along with this letter, will be available from NGC's website.

Yours sincerely

Andrew Walker

Director of Transmission

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