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31 March 2004

Dear Stuart

### **Revision to the Statement of the Use of System Charges**

The Gas and Electricity Markets Authority (the Authority) has carefully considered the revisions to the Statement of the Use of System Charges (the Statement) proposed by the National Grid Company plc (NGC).

The Authority considers that the revisions to the Statement reflect developments in NGC's transmission business and better achieve the relevant objectives<sup>1</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**

Condition C7.8 of NGC's transmission licence (granted or treated as granted under section 6 of the Electricity Act 1989) allows NGC to periodically revise the information set out in the Statement of the Use of System Charges and, with the approval of the Authority, amend the form of the Statement. Furthermore, at least once a year NGC should make such revisions as may be necessary in order to ensure the Statement is accurate in all material respects. In order to ensure that the Statement is accurate NGC invited comments from industry participants on 15 March 2004 and provided a revised version of the Statement to the Authority on 29 March 2004.

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<sup>1</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**

In accordance with Condition C7.5 of NGC's transmission licence, NGC notified the Authority on 1 November 2003<sup>2</sup> of its intention to change the Transmission Network Use of System (TNUoS) charges for 2004/05.

The proposed revisions seek to update the Statement to reflect the changes to the Use of System charges for 2004/05 to apply from 1 April 2004.

On 15 March 2004, NGC invited users to comment on the draft of the revised Statement. The draft of the Statement was made available on the NGC website and users were notified by email.

### **Respondent's views**

Four respondents offered comments on the draft charging methodology statements following consultation by NGC. Of these, one user responded to the invitation to comment on the draft use of system charges statement.

This respondent questioned the basis for calculating the application fee which applies when a user increases its TEC, and the charges made for bilateral agreements more generally. The respondent commented that the present fees seem arbitrary and excessive and requested that no amendment to the fees be undertaken without consultation with Ofgem and interested parties. In addition, the respondent requested an immediate review of all such fees.

### **Ofgem's view**

Ofgem considers that the proposed revisions to the Statement of the Use of System Charges will ensure that the Statement reflects developments in NGC's transmission business.

Ofgem expects NGC to have regard to the response to the consultation and, as part of its duty to keep the Charging Methodology under constant review, bring forward proposals to amend the methodology, if appropriate.

### **The Authority's decision**

Having regard to the above Ofgem considers that the revisions to the information contained within the statement reflect developments in NGC's transmission business. The revised

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<sup>2</sup> This document is available at [http://www.nationalgrid.com/uk/indinfo/charging/mn\\_useful\\_info.html](http://www.nationalgrid.com/uk/indinfo/charging/mn_useful_info.html)

Statement of the Use of System Charges will take effect from 1 April 2004, as indicated by NGC, and copies of the Statement 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