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Dear Anthony,

For Information: Treatment of New Generation Connection Applications and Modification Applications Separating the Timing of CEC and TEC

I am writing to you to outline National Grid's approach to changes in customer behaviour in relation to the timing of Connection Entry Capacity (CEC) and Transmission Entry Capacity (TEC) in new generation connection applications and modification applications. CEC can be regarded as the local connection design limit and TEC as the long-term right to export onto the transmission system. As you will be aware, National Grid recovers the costs of both local and wider infrastructure costs from TNUoS charges, which are based on TEC, and Connection charges relate to the costs of single user assets which are recovered directly from individual users. National Grid has observed a growing tendency for connection applications to exhibit the following features:

- Users are increasingly requesting CEC before TEC in new connection applications; and
- Where Users notify National Grid of delays to a project, requests are made for the CEC to be timed as per the original application, but for TEC to be pushed back; and
- Some Users are requesting CEC only, perhaps with the intention of procuring a short-term access product at a later stage.

At the Transmission Charging Methodology Forum (TCMF) on 22nd February 2008, National Grid provided a presentation to industry participants (available on the National Grid website) which outlined National Grid's intention to treat capital expenditure on works listed in H1 Part 1 of the Construction Agreement as if they are connection assets where Users request CEC ahead of TEC. A monthly Miscellaneous Charge would then apply until TEC is procured for the costs of advancing local works. This was challenged by industry. Having looked again at examples and the Connection Charging Methodology, National Grid now believes a One-off charge is appropriate for the costs associated with these connections since they are non-standard incremental costs caused by the User¹. This is consistent with NGET's cost reflective charging principles by ensuring the costs of individual users' connections that are not providing transmission services are charged accordingly while retaining the ability of individual users to connect quickly (via Connection charges levied directly on Users).

Further to Ofgem's letter to National Grid dated 19th December 2007 "GBEMC-09: Charging Arrangements Associated with SQSS Design Variations based on Customer Requests", National Grid is currently undertaking work to provide an enduring solution to this issue. National Grid expects to

¹ The presentation to TCMF outlined the methodology for the costs of advancing local works. The depreciation period used will normally be 40 years and the rate of return 6.25% consistent with the real pre-tax WACC published in the Transmission Price Control Review Final Proposals, December 2006

complete this work in summer 2008 for implementation in April 2009, at which point inclusion of additional costs for the advanced provision of local works as a One-off charge will be reviewed. National Grid does not regard this as a change to the Connection Charging Methodology, and provides this update for guidance.

Yours sincerely

Nick Pittarello
Charging Manager

cc. Industry Participants