

Modification to NGC's Connection Charging Methodology

CCM-M-03: Assets operating beyond their Replacement Period

Ofgem has decided **not to veto** this proposed modification, therefore the modification will be implemented on **1 April 2002**

Background

As part of its approval of NGC's Connection Charging Methodology the Authority imposed the following condition on NGC:

"to review its connection charging methodology regarding assets operating beyond their replacement period, provide a report to Ofgem of the results of its review, with reasons in reasonable detail for its conclusions and initiate the procedure for changing its methodology, if appropriate so that any such change could take effect from 1 April 2002"

NGC published a review paper (CCM-R-01) on 8 August 2001, which set out NGC's initial views and invited responses from all CUSC parties. Users also gave their views on the review at the Transmission Charging Methodologies Forum (TCMF) on 6 September 2001. NGC published a conclusion report on 8 October 2001. NGC's conclusions addressed both short term and long term measures.

In the short term NGC proposed to implement a process to address assets already operating beyond their Replacement Period and those which would reach their Replacement Period in the next charging year (2002/03). In the longer term NGC stated that it would put in place an enduring framework which would allow it to make arrangements with users before assets reached their Replacement Period.

In Ofgem's response to NGC's review conclusions Ofgem stated that it was satisfied with the review NGC had undertaken and that it had explained in sufficient detail the reasons for its conclusions for the short term. Ofgem said that there was insufficient detail for it to comment on NGC's conclusions on the longer term but noted that NGC intended to put forward more detail by April 2002.

On 20 November 2001 NGC published a paper on proposed modification CCM-M-03 for consultation, in accordance with Condition C7B(9)(a) of NGC's transmission licence. Users also gave their views at the Transmission Methodologies Charging Forum on 29 November 2001. Following its consultations NGC submitted a final report on proposed modification CCM-M-03 to Ofgem in accordance with Condition C7B(9)(c) on 21 December 2001.

Proposed Modification CCM-M-03

At present if assets remain in service beyond their Replacement Period, in the absence of any other agreement between NGC and the User concerned, NGC levies a 2.5 percent (of asset GAV) 'risk' charge. Proposed modification CCM-M-03 seeks to remove the need for NGC to impose such a charge in the charging year 2002/03.

The process proposed by NGC would vary Users' Bilateral Agreements so that the asset Replacement Period becomes the greater of forty years or the Charging Age at 1 April

2002 plus one year. Under proposed modification CCM-M-03 Users who accept the Agreement to Vary their Bilateral Agreements will not be subject to the 2.5 percent charge for the year 2002/03.

In its final report NGC stated that the proposed modification CCM-M-03 would better achieve relevant objectives C7B(11)(a) facilitating competition in generation and supply of electricity and C7B(11)(b)- produces charges which reflect the costs incurred by NGC in its transmission business.

Respondents to NGC's consultation

Many of the comments on NGC's proposed modification referred to issues and concerns regarding an enduring framework, which would allow NGC and the users to agree arrangements before assets reach their Replacement Period. In particular respondents commented on how and when asset replacement should be determined and also the justification for the 2.5 percent risk charge.

There were also some comments regarding the proposed drafting of Statement of Connection Charging Methodology. NGC have incorporated some of these comments (for further details please refer to NGC's final report on CCM-M-03).

Ofgem's views

Ofgem has decided **not to veto** proposed modification CCM-M-03 to NGC's Use of System Charging Methodology, the modification will be implemented on **1 April 2002**.

In its decision document¹ Ofgem acknowledged that NGC bore an element of risk if there was no agreement between it and a User regarding assets operating beyond their Replacement Period. However Ofgem said it did not believe there was a clear link between any risk incurred by NGC and the 2.5 percent risk charge.

NGC made clear in its final report that the intention of the short term measure proposed modification CCM-M-03, was to avoid the need to levy the 2.5 percent charge. Ofgem believes that the removal of the 2.5 percent charge (provided Users accept the variation to their Bilateral Agreements) will produce more cost reflective charges and the removal of such costs will also enhance competition in generation and supply of electricity. Therefore Ofgem believes proposed modification CCM-M-03 will better achieve relevant objectives C7B(11)(a) & (b).

Long term arrangements

NGC has already begun the process to establish an enduring framework, which will enable Users and NGC to agree arrangements before assets reach their Replacement Period. Such a framework should allow the consideration of both NGC's statutory obligations and the requirements of the Users (at single and shared sites).

Since NGC submitted its final report to Ofgem a modification has been proposed to CUSC (CAP012) regarding the procedure for renewing NGC connection assets. This CUSC modification has an interaction with the issue of assets operating beyond their Replacement Period. Nothing in this paper should be regarded as a comment on the proposed CUSC modification (CAP012).

¹ June 2001, *The National Grid Company: Approval of the Use of System and Connection Charging Methodologies*