



Direct Dial: 020-7901-7412

14 February 2003

The National Grid Company, CUSC Signatories and
Other Interested Parties

Our Ref: CCM-M-06

Dear Colleague

**Decision in relation to Connection Charging Methodology Modification Proposal CCM-M-06:
“Implementation of Changes Required for CAP043 “Transmission Access – Entry Access
Product Definition””**

The Gas and Electricity Markets Authority (the “Authority”)¹ has carefully considered the issues raised in the Conclusions Report² in respect of the Connection Charging Methodology Modification Proposal CCM-M-06: “Implementation of Changes Required for CAP043 “Transmission Access – Entry Access Product Definition””.

The National Grid Company plc (‘NGC’) submitted the Conclusions Report to the Authority on 12 February 2003 and recommended to the Authority that Modification Proposal CCM-M-06 should be implemented.

Ofgem has decided not to veto Modification Proposal CCM-M-06. Modification Proposal CCM-M-06 will therefore be implemented on 1 April 2003 as set out in the Conclusions Report.

This letter sets out the background to the Modification Proposal and sets out the Authority’s reasons for its decision.

¹ Ofgem is the office of the Authority. The terms “Ofgem” and “the Authority” are used interchangeably in this letter.

² Conclusions Report, Modification Proposal to the Connection Charging Methodology, CCM-M-06, “Implementation of changes required for CAP043 “Transmission access – entry access product definition””, dated 12 February 2003.

Background

Connection Charges enable NGC to recover the costs involved in providing the assets, which afford users of the transmission system (the "System") connection. The Connection Charging Methodology Statement includes the process of allocation of connection assets between users at shared connection sites. Currently, the allocation rules for connection assets use the generators' capacity to allocate the connection assets to generators at a connection site.

On 20 September 2002 NGC submitted Connection and Use of System Code ("CUSC") Amendment Proposal CAP043 "Transmission Access - Definition". CUSC Amendment Proposal CAP043 sought to introduce and define clear and unambiguous capacity entry products and associated terminology in the CUSC. Specifically, the Amendment Proposal sought to introduce two new terms, Transmission Entry Capacity ("TEC") and Connection Entry Capacity ("CEC"), to the CUSC. The TEC will define a generator's maximum allowed export onto the System in a financial year. The CEC will define the physical capacity of the generator at the connection point in line with what it has contractually requested. NGC proposed that the CEC would be defined both on a unit basis and a station basis so that a connection site can be designed in line with what a generator has contractually requested. NGC submitted the Amendment Report for CUSC Amendment Proposal CAP043 to the Authority for consideration on the 23 December 2002 and recommended that the Alternative³ Amendment Proposal CAP043 should be made and implemented on the 1 April 2003.

On the 11 November 2002 NGC issued a Consultation Paper on Modification Proposal CCM-M-05 "Implementation of changes required for CAP043 "Transmission access – entry access product definition"" to the Connection Charging Methodology. NGC proposed changes to the Connection Charging Methodology to reflect changes to the CUSC if Amendment Proposal CAP043 were approved. Modification Proposal CCM-M-05 sought to modify the Connection Charging Methodology to use generators' CEC to allocate connection assets to them at a connection site. The term CEC would replace the references to "connection capacity", "capacity", "capacity connected" and "installed capacity" in Chapter 10 of the Connection Charging Methodology Statement.

Respondents' views to consultation on Modification Proposal CCM-M-05

NGC received nine responses to the consultation on Modification Proposal CCM-M-05, of which five supported the Modification Proposal and four did not support the Modification Proposal. The majority of respondents that supported the Modification Proposal did so only on the basis that it is considered appropriate to use CEC to allocate connection assets to generators if CUSC Amendment Proposal CAP043 is approved and none of these respondents

³ Following the industry consultation for original Amendment Proposal CAP043 and in the light of responses received, NGC developed an Alternative Amendment Proposal that it considered better facilitated achievement of the Applicable CUSC Objectives as compared to the original Amendment Proposal.

supported CUSC Amendment Proposal CAP043. Of the respondents opposed to the Modification Proposal, one respondent considered the use of the new CEC product to cover both station capacities and individual generator unit capacities could cause confusion. Another respondent considered that the Modification Proposal would significantly change charges for certain generators at shared connection sites that cannot be attributed to any change in the costs those generators impose on the System.

NGC's view on Modification Proposal CCM-M-05

NGC submitted a Conclusions Report to Ofgem on the 23 December 2003. NGC recommended that Modification Proposal CCM-M-05 should be made. NGC considered that Modification Proposal CCM-M-05 would better facilitate achievement of the Relevant Objectives⁴ of the Connection Charging Methodology.

The Authority's Decision on Modification Proposal CCM-M-05

On the 15 January 2003 the Authority vetoed Modification Proposal CCM-M-05 to the Connection Charging Methodology. The Authority was not certain it would be in a position to approve or reject CUSC Amendment Proposal CAP043 before the expiry of the 28 day period by which NGC must implement Modification Proposal CCM-M-05 unless directed otherwise by the Authority. The Authority considered that it would be inappropriate for it not to veto Modification Proposal CCM-M-05 before the Authority had made a decision to approve or reject CUSC Amendment Proposal CAP043. This is because to allow Modification Proposal CCM-M-05 to be made may have fettered the Authority's discretion in respect of CUSC Amendment Proposal CAP043 or alternatively, subject to the outcome of the Authority's deliberations with regard to CUSC Amendment Proposal CAP043, the Connection Charging Methodology change could have become inappropriate.

⁴ The Relevant Objectives of the Connection Charging Methodology, as contained in Condition C7B.11 of National Grid Company's Transmission Licence (the "Transmission Licence"), are:

- (a) the objectives referred to in paragraph 5 of standard condition C7A (Use of System Charging Methodology), as if references therein to the use of system charging methodology were to the connection charging methodology; and
- (b) in addition, the objective, in so far as consistent with sub-paragraph (a), of facilitating competition in the carrying out of works for connection to the licensee's transmission system.

The Relevant Objectives of the Use of System Charging Methodology, as contained in Condition C7A.5 of the Transmission Licence 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 Modification Proposal CCM-M-06

On the 6 February 2003 the Authority approved CUSC Alternative Amendment Proposal CAP043. On the same day NGC wrote to Ofgem indicating that they intended to resubmit Modification Proposal CCM-M-05 as Modification Proposal CCM-M-06 and recommended that Licence Condition C7B 9(a) which requires NGC to consult CUSC users on any Modification Proposals and to allow them a period of not less than 28 days within which to make representations should not apply. On the same day Ofgem replied to NGC and directed under Licence Condition C7B 9(d) that for Modification Proposal CCM-M-06 the consultation period under C7B 9(a) shall be 2 working days instead of 28 days. This was on the basis that NGC stated that the views to the 28 day consultation already undertaken on Modification Proposal CCM-M-05 would be taken into account and that a longer period would not allow sufficient time to agree TEC and CEC figures required for the implementation of CUSC Alternative Amendment Proposal CAP043.

Modification Proposal CCM-M-06 is identical to Modification Proposal CCM-M-05.

NGC issued a consultation paper on Modification Proposal CCM-M-06 on 7 February 2003 inviting responses from CUSC Parties and interested parties by 12:00 midday on the 11 February 2002.

Respondents' views on Modification Proposal CCM-M-06

NGC received 4 responses to the consultation, of which two supported Modification Proposal CCM-M-06, one did not support the Modification Proposal and one respondent did not indicate whether they supported the Modification Proposal or not.

One respondent that supported Modification Proposal CCM-M-06 agreed that the Connection Charging Methodology should be consistent with entry capacity product definitions to be introduced by the approved CUSC Alternative Amendment Proposal CAP043.

One respondent that did not support Modification Proposal CCM-M-06 did not support the arrangements to be introduced by CUSC Alternative Amendment Proposal CAP043 and therefore did not support the proposed associated changes to the Connection Charging Methodology.

The respondent that did not indicate whether they supported the Modification Proposal had some comments on the Modification Proposal. They considered that the use of the new CEC product to cover both station capacities and individual generator unit capacities could cause confusion and that the use of CEC should not result in any disturbance to a generator's present Connection Charges. In addition, the respondent suggested that the definition of CEC does not take account of local demand.

NGC's view on Modification Proposal CCM-M-06

NGC stated that they would not expect any Connection Charges to change as a direct result of this Modification Proposal, as the capacity values currently used to allocate connection assets should be comparable with the CEC values. NGC gave assurance that in the unlikely event that a proposed CEC value results in a change in Connection Charges, the effect of this change will form part of the discussions to agree the CEC figure with the generator.

NGC noted a respondents concern with the possible scope for confusion over the use of the CEC term for asset allocation purposes, since there is both a total connection site CEC and an individual generating unit CEC. NGC outlined that the CEC value, which will be used for asset allocation purposes, should reflect the capacity connected to the substation at which the connection assets are being allocated. This would normally be the connection site CEC, however it is feasible for a single station to have individual generating units connected to different substations. In such exceptional cases only the generating unit CEC term will be used for substations at each voltage level. NGC considered that it is made clear in the Modification Proposal that the connection site CEC will be used for asset allocation purposes in most circumstances with the generating unit CEC to be used when appropriate and by exception.

NGC confirmed that the connection site CEC defines the maximum level of export that the generator can physically make at that site and could allow for local demand.

NGC considered that Modification Proposal CCM-M-06 reflects the changes to be introduced to the CUSC by Alternative Amendment Proposal CAP043 which would better facilitate the achievement of the Relevant Objective of the Use of System Charging Methodology C7A 5(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.

NGC recommended to the Authority that Modification Proposal CCM-M-06 should be made and implemented on 1 April 2003.

Ofgem's view

Ofgem considers, having had regard to its statutory duties, that Modification Proposal CCM-M-06 would better facilitate achievement of the Relevant Objectives of the Connection Charging Methodology.

Ofgem considers that the introduction of the CEC product in the CUSC will make it clear what rights and obligations generators have in regard to connection assets. Ofgem considers it appropriate that CEC is used to allocate connection assets to generators at a connection site in

the Connection Charging Methodology to ensure consistency and to provide further clarity to market participants.

Ofgem considers that Modification Proposal CCM-M-06 reflects the changes introduced by the approved CUSC Alternative Amendment Proposal CAP043. Therefore Ofgem considers that the Modification Proposal will better facilitate the achievement of the Relevant Objective of the Use of System Charging Methodology C7A 5 (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.

NGC stated that they would not expect any Connection Charges to change as a direct result of this Modification Proposal and that in the unlikely event that a proposed CEC value results in a change in Connection Charges, the effect of this change will form part of the discussions to agree the CEC figure with the generator. As outlined in the Authority's decision letter on CUSC Amendment Proposal CAP043, should NGC and the generator not agree on the figures for CEC and TEC, NGC or the generator will be able to refer the issue of the initial CEC and TEC to the Authority. In such cases, it will be necessary for default values to be available for use until such time as any outstanding issues have been resolved.

The Authority's Decision

The Authority has therefore decided not to veto Modification Proposal CCM-M-06. Modification Proposal CCM-M-06 will therefore be implemented on 1 April 2003 as set out in the Conclusions Report.

Please contact me on the above number if you have any queries in relation to the issues raised in this letter. Alternatively, contact Richard Ford on 020 7901 7411.

Yours sincerely



Sonia Brown
Director, Electricity Trading Arrangements

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