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Dear Simon,

GB security standards and the GB transmission charging methodologies

Several parties have raised concerns with Ofgem regarding the interaction between the GB transmission charging methodologies and the GB Security and Quality Supply Standards (SQSS). Specifically, the interaction between the SQSS and the definition of “connection boundary” in the GB connection charging methodology. Parties have expressed concern that, as a result of a need to comply with the SQSS and the GB connection charging methodology, a double-circuit may need to be constructed for new connecting parties where previously, depending on the preference of the connecting party, a single circuit might have been considered to be economic and efficient.

The basis of National Grid Electricity Transmission’s (NGET) approved GB connection charging methodology is the adoption of a “shallow” connection charging boundary whereby connection assets are defined as assets for the sole use of each connected party (i.e. any asset which has the potential to be shared by more than one user is classified as infrastructure). As noted at that time, Ofgem considers that shallow connection charging arrangements are in the interest of consumers as they ensure parties are not unduly or arbitrarily disadvantaged on the basis of when and where they connect to the network and thus that the arrangements promote effective competition. Ofgem remains of this view.

Shallow connection charging was introduced in England and Wales in December 2003. The same principle was enshrined in the GB connection charging arrangements which were approved by the Authority in November 2004. The introduction of shallow connection charging on a GB wide basis has led parties to raise concerns in relation to the requirement to construct a double circuit for new connecting parties in Scotland in circumstances where prior to the introduction of shallow connection charging a single circuit would have been constructed. This issue did not arise with the introduction of shallow connection charging in England and Wales as there was no scope for single circuit connection in England and Wales.

As you are aware, the GB transmission charging methodologies are subject to a number of statutory and licence obligations. Specifically, section 9(2) of the Electricity Act 1989 requires transmission licensees to operate their networks in an economic, efficient and coordinated manner. In addition, NGET's transmission licence requires it to have in place charging methodologies that achieve certain relevant objectives, and to keep the charging methodologies under review at all times in order to ensure that these relevant objectives continue to be met.¹

The relevant objectives for the use of system charging methodology are:

- (a) to facilitate effective competition in the generation and supply of electricity, and so far as it is consistent, facilitate competition in the sale, distribution and purchase of electricity;
- (b) to reflect, as far as is reasonably practicable, the costs incurred by the licensee in its transmission businesses; and
- (c) as far as is reasonably practicable, to take account of the developments in the licensees' transmission businesses.

The connection charging methodology must also achieve the objectives set out above, as well as a fourth objective which is to facilitate competition in connections.

Against the background of the relevant statutory and licence obligations, Ofgem invites NGET to consider the concerns raised by interested parties with respect

¹ Standard Condition C5 Use of system charging methodology; Standard condition C6 Connection charging methodology

to the interaction between the SQSS and the GB transmission charging methodologies.

It would be helpful if you could provide an initial response to Ofgem on this issue by the end of January 2006.

Yours sincerely

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Cc: Stuart Easterbrook