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Dear Stuart,

**Fulfilment of conditions attached to the Authority's approval of the GB transmission use of system charging methodology**

Thank you for your letter of 3 November 2005 which seeks confirmation that the Authority<sup>1</sup> considers that National Grid Electricity Transmission plc ('NGET') has fulfilled the requirements of the first of the conditions which was attached to the Authority's approval of the GB transmission use of system charging methodology in February 2005.

As you know, when the Authority approved NGET's proposed GB use of system charging methodology, it attached five conditions to that approval. Each of those conditions related to future actions to be taken by NGET which the Authority considered might reasonably be expected to promote further the attainment of the relevant objectives.<sup>2</sup> The first of these conditions ('charging condition 1') required NGET to "... invite views and to consult on alternative methods of addressing the issue of negative demand charges and to bring forward a proposal to modify the use of system charging methodology in this regard consistent with implementation in April 2006". The motivation for the imposition of this condition was the collaring of demand charges at zero, which the Authority noted had a small adverse impact on the overall cost-reflectivity of the charging methodology.

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<sup>1</sup> Ofgem is the office of the Authority. The terms 'Ofgem' and 'the Authority' are used interchangeably in this letter.

<sup>2</sup> The relevant objectives for the use of system charging methodology, as contained in paragraph 5 of standard licence condition C5 of NGET's 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 (excluding payments between transmission licensees which are made under the STC) incurred by transmission licensees in their transmission businesses; 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 transmission licensees' transmission businesses.

It is Ofgem's view that the requirements of charging condition 1 have been met. In reaching that view, Ofgem noted that NGET had:

- ◆ invited views on a range of alternative options for modifying the use of system charging methodology to address the issue of negative demand charges at the Transmission Charging Methodologies Forum in April 2005
- ◆ published a questionnaire that invited views on a wide range of different solutions for dealing with negative demand tariffs in May 2005
- ◆ consulted on a proposed modification to the use of system charging methodology to address the issue of negative demand charges in August 2005; and
- ◆ submitted proposed modification entitled "Modification Proposal to the Use of System Charging Methodology ECM-02: Negative Demand Charges" to the Authority on 3 October 2005. If the modification proposal had not been vetoed, it would have been capable of being implemented by April 2006, as required by charging condition 1.

Notwithstanding the fact that NGET has met the requirements of charging condition 1, standard licence condition C5 of NGET's licence requires it to keep the use of system charging methodology under review at all times and to make proposals to modify the methodology as required with a view to the methodology better achieving the relevant objectives. Ofgem therefore expects that NGET will continue to consider whether further developments in this (or any other) area could better facilitate achievement of the relevant objectives.

In the interests of providing transparency to users of the transmission system this letter has today been published on Ofgem's website.

Yours sincerely



**Robert Hull**  
Director of Transmission