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*Promoting choice and
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Dear Hêdd,

Fulfilment of conditions attached to the Authority's approval of the GB transmission charging methodologies – GB charging condition 6

On 17 October 2006 National Grid Electricity Transmission ("NGET") submitted to Ofgem a report on GB charging condition 6 entitled "Charging Arrangements for Site Specific Maintenance".

In approving NGET's proposed GB connection charging methodology in November 2004, the Authority attached one condition to that approval 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.¹

Charging condition 6 ("the condition") required NGET to "review and potentially revise, within the next two years (by 1 April 2007), its calculation of charges relating to the maintenance of connection assets with a view to furthering the relevant objectives to charge cost reflectively and to facilitate competition in connection works". The motivation for the imposition of this condition was to consider whether the existing arrangements, whereby a charge is derived on the basis of a fixed percentage of the value of each user's

¹ 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 incurred by the licensee in its transmission business;
- (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; and
- (d) to facilitate competition in the carrying out of works for the connection to the licensee's transmission system.

connection assets, maximises the scope for competition in transmission connection asset maintenance and thus the associated benefits to consumers.

It is Ofgem's view that the requirements of charging condition 6 have been met. In reaching that view, Ofgem noted that, in developing a proposal NGET:

- ♦ invited views on a range of alternative options at the Transmission Charging Methodologies Forum
- ♦ published a questionnaire that invited views on a wide range of different solutions; and
- ♦ published a report setting out the conclusions of the review.

Notwithstanding the fact that NGET has met the requirements of charging condition 6, standard licence condition C6 of NGET's licence requires it to keep the connection 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 area could better facilitate achievement of the relevant objectives.

Further, Ofgem is currently undertaking a review of competition in connections in the gas and electricity connections industries. The purpose of this review is to seek better ways to protect the interests of gas and electricity consumers, where appropriate through competition. Site specific maintenance and contestability of self-build connections have been highlighted as issues to be considered in further detail by this review with a view to determining whether further measures could be undertaken to further facilitate competition in these areas. Ofgem's recent consultation² on this subject closed on 31 October 2006. We intend to publish a proposals document in early 2007 and we expect to conclude the review with final decisions and/or licence modifications in spring 2007.

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

² Review of competition in gas and electricity connections – Ofgem, 31 August 2006 #159/06
www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/16480_159_06.pdf