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value for all customers*

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Dear Hêdd,

Fulfilment of conditions attached to the Authority's approval of the GB transmission charging methodologies – GB charging condition 4

On 16 October 2006 National Grid Electricity Transmission ("NGET") submitted to Ofgem a report on GB charging condition 4 entitled "Long-term fixed priced products"¹.

In approving NGET's proposed GB use of system charging methodology in February 2005, the Authority 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.²

The fourth of these conditions ('charging condition 4') required NGET "To invite views and to consult on methods of enabling transmission users to choose to contract for rights to use the transmission system with TNUoS charges fixed at a specified level for periods of more than one year, and to bring forward a proposal to modify the use of system charging methodology in this regard consistent with implementation in April 2007".

The motivation for the imposition of this condition was to ensure that the methodology, so far as was practicable, complied with standard licence condition C5 of the electricity transmission licence by facilitating effective competition in the generation and supply of electricity.

¹ <http://www.nationalgrid.com/uk/Electricity/Charges/gbchargingapprovalconditions/4/>

² 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; 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 4 have been met. In reaching that view, we note that, in assessing the condition NGET:

- ◆ invited views on a range of possible ways to introduce long-term, fixed price access products at the Transmission Charging Methodologies Forum (TCMF) and the Charging Implementation Steering Group (CISG);
- ◆ published an industry questionnaire to seek more detailed views on long-term fixed price tariff arrangements (to which they received and considered 11 responses);
- ◆ held further discussions at TCMF and CISG concerning the responses to its consultation and the proposed way forward;
- ◆ engaged in the Access Reform Options Development Group (ARODG). Some of the changes considered in this group contribute to the aims of condition 4; and
- ◆ published a final report summarising parties' views and NGET's conclusions on 16 October 2006.

Notwithstanding the fact that NGET has met the requirements of charging condition 4, Ofgem notes that 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 area could better facilitate the 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