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25 March 2002

The National Grid Company plc
National Grid House
Kirby Corner Road
Coventry
CV4 8JY

Your Ref: CAP014

Our Ref: IND/COD/CUSC/CAP014

Dear NGC, Connected Parties, Customers and Other Interested Parties,

Amendment to the Connection and Use of System Code (“CUSC”) - Decision and Direction in relation to Proposed Amendment CAP014: “Removal of Redundant Paragraphs”.

The Gas and Electricity Markets Authority (the “Authority”)¹ has carefully considered the issues raised in Proposed Amendment CAP014 “Removal of Redundant Paragraphs”.

The National Grid Company plc (“NGC”) has recommended to the Authority that Proposed Amendment CAP014 be approved and implemented with effect from 5 days after the Authority’s decision or 1 April 2002 (whichever is the later date).

The Authority has decided to direct a modification to the CUSC.

This letter explains the background to Proposed Amendment CAP014 and sets out the Authority’s reasons for its decision. In addition, the letter contains a direction to NGC to modify the CUSC as set out in the Proposed Amendment.

Background to the Proposal

In view of NETA “Go-live” on 27 March 2001, the distinction between pre and post-NETA reconciliation charges is no longer required and can be removed. Furthermore, as Final Reconciliation for all Financial Years ending on or before 31 March 2000 is now complete, such distinction is no longer required and can also be removed.

NGC believes that improving clarity and removing uncertainty from the CUSC documentation enables NGC to more easily and efficiently discharge its obligations under the Act and the

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

Transmission Licence and fulfil its obligations to facilitate competition in the generation and supply of electricity.²

Proposed Amendment CAP014 was raised by NGC and submitted for consideration at the CUSC Amendments Panel Meeting on 11 January 2002. At the meeting the Panel determined that Proposed Amendment CAP014 should proceed to wider industry consultation. A consultation paper was issued on 25 January 2002 with responses welcomed by 22 February 2002. A Final Amendment Report was submitted to the Authority on 8 March 2002.

The Proposed Amendment

Proposed Amendment CAP014 seeks to modify Section 3.12 of the CUSC, so as to remove the redundant paragraphs and terminology (which distinguish between pre-NETA and post-NETA), that relate to the Transmission Network Use of System charge reconciliation process. Therefore, this Proposed Amendment seeks to remove the redundant pre-NETA paragraphs from the CUSC.

Proposed Amendment CAP014 seeks to remove paragraph 3.12.1(a), which relates to the reconciliation of Transmission Network Use of System (TNUoS) Charges for Financial Years ending on or before 31 March 2000. As final reconciliation of 1999/2000 TNUoS Charges has now been completed, this paragraph is now redundant and can be removed. Furthermore, the amalgamation of paragraphs 3.12.1(b) and 3.12.1(c), which distinguish between pre-NETA and post-NETA reconciliation, is now required.

Proposed Amendment CAP014 also seeks to modify paragraphs 3.12.2 and 3.12.4 and to make the addition of two definitions to Section 11 of the CUSC. All references to "Notional Amount A" and "Actual Amount A" terminology are no longer required as they relate to charges for Financial Years ending on or before 31 March 2000 and are hence redundant. Further, all references of "Notional Amount A" and "Actual Amount A" (in paragraph 3.12) can be removed and all instances of "Notional Amount B" can be changed to "Notional Amount" and all instances of "Actual Amount B" (in paragraph 3.12) can be changed to "Actual Amount". Definitions of "Notional Amount" and "Actual Amount" also need to be added to Section 11.

² The Applicable CUSC Objectives are contained in Condition C7F of the Transmission Licence and are:

- (a) the efficient discharge by the licensee of the obligations imposed upon it under the Act and by this licence; and
- (b) facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity.

In line with this, similar references to redundant text are being made in the update of the Statement of Use of System Charging Methodology document for April 2002.

NGC issued a consultation paper on 25 January 2002 for views from CUSC Parties and interested parties.

Respondents' views

NGC received three responses to the consultation on Proposed Amendment CAP014, all of which were supportive of the Proposed Amendment.

The respondents' views are summarised and contained in the Amendment Report for Proposed Amendment CAP014 dated 8 March 2002.

NGC's Recommendation

NGC recommended that the Authority should approve Proposed Amendment CAP014 and that if approved, the Proposed Amendment should be implemented with effect from 5 days after the Authority's decision or 1 April 2002 (whichever is the later date).

Panel's Recommendation

The Panel recommended that the Authority should approve Proposed Amendment CAP014 and that if approved, the Proposed Amendment should be implemented with effect from 5 days after the Authority's decision or 1 April 2002 (whichever is the later date).

Ofgem's view

Ofgem considers, having had regard to its statutory duties, that Proposed Amendment CAP014 will better facilitate the achievement of the Applicable CUSC Objectives. Improving clarity and removing uncertainty from the CUSC documentation will better facilitate the achievement of Objective C7F.1(a) for the efficient discharge by NGC of the obligations imposed upon it under the Act and by the Transmission Licence and the achievement of Objective C7F.1(b) to facilitate effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitate such competition in the sale, distribution and purchase of electricity.

Ofgem agrees with the Panel's recommendation that Amendment Proposal CAP014 should be implemented with effect from 5 days after the Authority's decision or 1 April 2002 (whichever is the later date).

The Authority's decision

The Authority has therefore decided to direct that Proposed Amendment CAP014 should be made and implemented.

Direction under Condition C7F.7(a) of NGC's Transmission Licence

Having regard to the above, the Authority, in accordance with Condition C7F.7(a) of the licence to transmit electricity treated as granted to NGC under Section 6 of the Electricity Act 1989 as amended (the "Transmission Licence"), hereby directs NGC to modify the CUSC as set out in Proposed Amendment CAP014.

The modification is to take effect from 5 days after the Authority's decision or 1 April 2002 (whichever is the later date).

In accordance with Condition C7F.7(b) of NGC's Transmission Licence, NGC shall modify the CUSC in accordance with this direction of the Authority.

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the above number.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'A. Simpson', written over a horizontal line.

Nick Simpson

Director of Industry Code Development

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