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Dear Hannah

REQUEST TO REVISE FORM OF THE STATEMENT OF USE OF SYSTEM CHARGES

National Grid Electricity Transmission plc (“National Grid”) is proposing to revise the format of the Statement of Use of System Charges prepared under Standard Licence Condition C4 paragraph 2(b) of its Transmission Licence (“The Charging Statement”). Standard Licence Condition C4 paragraph 8 of National Grid’s Transmission Licence only allows amendments to the form of The Charging Statement following the Authority’s approval.

Against this background, this letter requests the Authority to approve changes to the form of The Charging Statement, setting out the background to this request; our proposed revised form of The Charging Statement; a justification of why we believe approval should be granted; and the impact that it will have on National Grid and transmission users.

Background

The implementation of the revised code governance arrangements has recently incorporated the Statement of Use of System Charging Methodology (“The Methodology Statement”) into the Connection and Use of System Code (“The CUSC”). As a result, these documents are now subject to The CUSC governance process, and can only be amended as part of a formal amendment to The CUSC.

On an annual basis, National Grid updates The Charging Statement to detail the charges applicable for the new charging year. Traditionally, National Grid has also updated The Methodology Statement so that examples of parameters calculated in line with the underlying methodology and certain example calculations reflect up-to-date values. These include, for example, the expansion constant and expansion factors used to calculate TNUoS tariffs and BSIS parameters used to calculate BSUoS tariffs. Whilst such updates have no effect on the underlying charging methodology, they do provide additional transparency in providing the industry with an up-to-date view of the parameters used within the tariff calculation and realistic examples to aid understanding of how the methodology has been applied.

The case for changing the form of The Charging Statement

The recent implementation of the revised code governance arrangements for the charging methodologies means that to update the above information in the Methodology Statement would require an annual CUSC amendment. National Grid does not believe that updating the information in this manner is an efficient use of industry resources.

However, National Grid believes that the industry utilises the parameters and examples that are updated in The Methodology Statement in combination with data presented in The Charging Statement, so that analysis on different charging scenarios can be undertaken and, as noted above, are consistent with transparently applying the methodology. It may therefore be more efficient to include this data within a single document separate from the Methodology Statement that can be routinely updated each year.

National Grid's proposal

As the data in question does not affect the charging methodology described by The Methodology Statement and is included to provide the industry with a more informed view of the actual calculation of tariffs, we believe that it would be more appropriate for these to be included within The Charging Statement instead of The Methodology Statement.

We therefore propose that this information is included in the Statement of Use of System Charges. A copy of the proposed format accompanies this letter and is in line with changes discussed at recent meetings of the Transmission Charging Methodology Forum (TCMF).

You may note that a number of empty tables are included within the BSIS section of the attached statement. These have been included to avoid a further request to approve the form of the document following the confirmation of the BSIS parameters for 2011-12, by providing a view of how we propose to present this information.

In addition please note that the above proposal will not affect the current content of The Methodology Statement, as any changes resulting from the introduction of the new code governance arrangements will be handled separately under the CUSC modification process. It is National Grid's intention to propose changes to The Methodology Statement in two phases:

- (i) a more immediate proposal that will introduce non-material housekeeping changes to reflect its incorporation within the CUSC; and
- (ii) a subsequent proposal that will consider changes to remove previously annually updated information that will be published in The Statement of Use of System Charges.

As a consequence of dealing with the changes to each document separately, if the proposal set out in this letter is accepted, a period of time will occur where certain data and examples will be published in both documents in relation to different time periods. Specifically, The Methodology Statement will provide the information in relation to 2010-11, whilst The Statement of Use of System Charges will provide this for 2011-12. However, in the case of a specific piece of information, either the wording of both documents will highlight the date time period to which the

information relates, or both will be consistent and the information will not be expected to change until after the planned CUSC modification proposals outlined above have been considered.

We believe that this proposal is consistent with the new code governance arrangements and facilitates competition by ensuring that up to date charging parameters remain readily available.

Connection charging

Whilst not part of this specific request, National Grid separately intends to consider the appropriateness of several connection charging examples contained in the Statement of the Connection Charging Methodology and will, without annual CUSC amendments, become out of date over time. In due course, this may result in National Grid requesting a change to the Transmission Licence to facilitate their movement to a document outside of The CUSC, to allow for efficient review and updating.

If you have any queries regarding the above proposal please contact myself or Wayne Mullins on (01926 653999).

Yours sincerely

Anne Bennett

Charging & Revenue Manager

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Statement of Use of System Charges (updated)