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13 December 2004

The National Grid Company, CUSC signatories and  
other interested parties

Your ref: CAP069  
Our ref: IND/COD/CUSC/CAP069

Dear Colleague,

**Amendment to the Connection and Use of System Code (CUSC) - decision and notice in relation to Proposed Amendment CAP069 - Users' Forecasts Used in the Calculation of TNUoS Charges.**

The Gas and Electricity Markets Authority<sup>1</sup> has carefully considered the issues raised in the Amendment Report<sup>2</sup> in respect of Proposed Amendment CAP069 *Users' forecasts used in the calculation of TNUoS charges*.

The National Grid Company plc (NGC) recommended to the Authority that Proposed Amendment CAP069 should be rejected.

Having carefully considered the Amendment Report and NGC's recommendation and having had regard to the Applicable CUSC Objectives<sup>3</sup> and Ofgem's wider statutory duties<sup>4</sup>, the Authority has decided to direct a modification to the CUSC consistent with Alternative Amendment A of the Amendment Report.

A separate letter contains the direction to NGC to modify the CUSC consistent with this decision letter.

This letter explains the background to Proposed Amendment CAP069 and sets out the Authority's reasons for its decision. This letter also constitutes notice by the Authority under Section 49A of the Electricity Act 1989 in relation to the direction.

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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> CAP069 Amendment Report dated 10 May 2004

<sup>3</sup> The Applicable CUSC Objectives are contained in Standard Condition C10 of the licence to transmit electricity treated as granted to NGC under Section 6 of the Electricity Act 1989 (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 competition in the sale, distribution and purchase of electricity.

<sup>4</sup> Ofgem's statutory duties are wider than the matters that the Panel must take into consideration and include amongst other things a duty to have regard to social and environmental guidance provided to Ofgem by the government.

## Background

Amendment Proposal CAP069 was proposed by RWEInnogy on 4<sup>th</sup> December 2003 and was considered by the CUSC Amendments Panel (the Panel). It determined that Amendment Proposal CAP069 should be evaluated by a Working Group. The Working Group provided a final report to the Panel and CAP069 proceeded to wider industry consultation, with responses invited by 16 April 2004. The Amendment Report was submitted to the Authority on 10 May 2004.

## The Proposed Amendment

The Proposal seeks to strengthen and clarify the sections of the CUSC detailing the obligations on Users to provide NGC with data used in calculating Transmission Network Use of System (TNUoS) charges.

The Proposer stated that:

- the CUSC is not sufficiently precise in setting out the information that must be provided by Users to NGC, the quality of the information and how this data would be used in the calculation of TNUoS charges. As a result charges could be less cost-reflective than practicable;
- the Amendment would clarify that forecasts from Users should be representative of peak conditions on the transmission system, (as specified in the Charging Statements<sup>5</sup>) and would seek to ensure that generation and demand assumptions were consistent across all submitted data (including supplier and generator forecasts);
- NGC would be permitted to reject data submitted by Users in accordance with a set of criteria outlined within the CUSC and (following notification to the user) replace this data with its own reasonable estimates.

## Working Group discussion

The Working Group accepted the case for improved clarity in the use of data submitted by Users under section 3.10 of the CUSC, discussed elements of the proposal (as outlined below), developed the Proposed Amendment and proposed two Alternative Amendments.

Working Group members disagreed on whether the purpose of Section 3.10 of the CUSC should be to enable or oblige NGC to request a defined set of information from Users. There was also disagreement over whether NGC should request a forecast of maximum station output, which some Users said would be more representative than Transmission Entry Capacity (TEC) in negative charging zones.

## Governance

The Working Group considered that:

- the issues addressed by CAP069 could potentially be addressed via an amendment to the Charging Statements rather than the CUSC. Nevertheless, the Working Group considered that, to the extent that it is practicable under the CUSC, the proposal

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<sup>5</sup> The Charging Statements (see particularly the Statement of the Use of System Charging Methodology) are available at [http://www.nationalgrid.com/uk/indinfo/charging/mn\\_charging.html](http://www.nationalgrid.com/uk/indinfo/charging/mn_charging.html)

addresses the problem of a lack of clarity in charge setting and better facilitates achievement of the Applicable Objectives.

- several of the issues identified within the proposal do not lie exclusively within the governance of the CUSC and noted the interrelationship with the Statement of the Use of System Charging Methodology. In this context CUSC should place an obligation on Users to provide NGC with the data it requires to calculate and set tariffs pursuant to the Charging Statements.

### **Accuracy of data**

The Working Group did not consider it appropriate for the proposal to address the accuracy of data submitted by Users, as NGC does not rely solely on this when inputting data into its tariff model and uses Seven Year Statement (SYS) TEC data in its transport model. NGC also uses a quality check when deciding whether or not to use data submitted, as it is incentivised to minimise over or under recovery of allowed revenue, which could result from using inaccurate data.

### **Proposed changes to the CUSC**

The Working Group considered that an additional clause could be added into section 3.10 clarifying the information that NGC would request from Users. Each December NGC would request a TEC forecast from generators liable to pay TNUoS charges and each March NGC would request suppliers' demand forecasts. The Working Group also proposed that section 9.10.2, relating to Interconnector owners, should be amended in line with the changes to section 3.10.

### **Assessment against the Applicable Objectives**

The Working Group concluded that the Amendment Proposal would improve transparency and so better facilitate the CUSC Objective of promoting competition. The Working Group also considered that the increased clarity would better facilitate the efficient discharge by NGC of the obligations imposed on it by the Act and the Transmission Licence.

### **Alternative Amendment A**

The Proposed Amendment places an obligation on NGC to request (and on Users to provide) a forecast of TEC and a forecast of maximum station output for the following charging year. Alternative Amendment A places an obligation on NGC to request (and on Users to provide) only a forecast of TEC for the following charging year.

### **Alternative Amendment B**

Alternative Amendment B enables NGC to request (and obliges Users to respond to such a request), a forecast of TEC and a forecast of maximum station output for the following charging year.

### **Respondents' views**

NGC received four responses to the consultation in respect of the Amendment Proposal. Two respondents favoured the original Amendment Proposal, one preferred Alternative Amendment

A and one did not support either the Amendment Proposal or any of the Alternative Amendment Proposals.

The two respondents in favour of the Amendment Proposal considered that CAP069 would better facilitate achievement of the Applicable CUSC Objectives and considered that an amendment to the Statement of the Use of System Charging Methodology was also required in order to ensure the correct usage of data. Both respondents considered that the cost reflectivity of charges, in both positive and negative charging zones, would be enhanced by requiring NGC to request and use data relating to maximum station output and TEC. They also considered that the Amendment would aid the transparency of the charge setting process. Neither respondent supported the Alternative Amendments and considered that they would not be capable of fully addressing the issues surrounding data clarity identified in the Amendment Proposal.

The respondent in support of Alternative Amendment A supported the intention of the Amendment Proposal to clarify the data provision process. The respondent agreed that the CUSC should contain the obligations to provide data and the Charging Statements detail of how this data will be used in the charge setting process. The respondent supported Alternative A as it does not impose a burden on Users and NGC by obliging NGC to request data that it would not use. The respondent who opposed the Proposal agreed with the intention but considered that the Charging Methodology Statements would be the appropriate place to address these issues.

Two Amendment Panel members responded to the CAP069 consultation. One supported Alternative Amendment A and the other did not support the Proposal in any form.

### **NGC's recommendation**

NGC recommended that the Authority should not direct a modification to the CUSC. NGC agreed with the Proposer that obligations on Users or NGC to provide data should be stipulated in the CUSC, while the Charging Statements should contain the detailed methodology used by NGC in running the transport and tariff models and calculating TNUoS charges. However, NGC said that the matters addressed by CAP069 would be better addressed in its Charging Statements.

NGC said that, as the Charging Statements do not specify the use of a forecast of maximum station output in the calculation of TNUoS charges it should not be required to collect this data.

NGC suggested that if the Amendment were to be approved, duplication would occur between the CUSC and the Charging Statements, providing a risk that the two documents would become inconsistent. This would fail to better facilitate the relevant CUSC Objectives.

### **GB consultation respondents' views**

The Authority received one response to its GB wide consultation for CAP069<sup>6</sup>. The respondent stated that they considered there to be a lack of clarity concerning the data used in setting TNUoS charges. It considered that this was an important issue given the current uncertainty over how and when GB generation data will be collected, used and published by NGC in the

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<sup>6</sup> CAP069 GB wide consultation published 20 May 2004. See [http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/7173\\_GBConsultationLtr\\_20may04.pdf](http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/7173_GBConsultationLtr_20may04.pdf)

calculation of transmission tariffs. However, the respondent considered that the issue was most appropriately addressed via a modification to the Charging Methodology Statements.

### **Ofgem's view**

Having carefully considered the Amendment Report, Ofgem considers, having had regard to its statutory duties and the Applicable CUSC Objectives, that CAP069 Alternative Amendment A would better facilitate the achievement of the Applicable CUSC Objectives.

As suggested by the majority of the Working Group, the CUSC should set out the obligations on Users to provide NGC with data to calculate and set tariffs pursuant to the Charging Statements, while the Charging Statements detail the method by which charges will be calculated. These obligations should be expressed as clearly and transparently as practicable, to give Users certainty regarding the form of and timing for submitting data to NGC.

Some respondents noted difficulties with the existing charge setting process regarding the use of TEC for generators in negative transmission charging zones. These are matters for NGC to address in the development of its Charging Methodology and Charging Statements.

As station TEC is presently used as input data in the charge setting process and maximum station output is not, requesting the latter would place an unnecessary burden on Users. Hence, Alternative A should be preferred to the Proposed Amendment and Alternative Amendment B.

CAP069 Alternative Amendment A would:

- clarify the information to be provided to NGC and so encourage transparency and cost reflective charging;
- minimise the amount of work necessary in providing data to NGC so reducing barriers to entry and encouraging competition

### **The Authority's decision**

The Authority has decided to direct that CAP069 Alternative Amendment A, as set out in the Amendment Report, should be implemented. The attached letter contains this direction.

Yours sincerely



**Andrew Walker**

**Director – Transmission Networks Regulation**

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