

CONSULTATION DOCUMENT

GB ECM-05

**Modification Proposal to the Transmission Network
Use of System charging methodology to cater for
manifest data errors in the calculation of TNUoS tariffs**

August 2006

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1 Executive summary

This consultation document sets out National Grid's proposals for modifying the Transmission Network Use of System (TNUoS) charging methodology to provide a mechanism by which TNUoS charges can be reconciled in the event of a manifest error which results in a material change to a User's annual TNUoS charge.

The document has been published on the National Grid charging website at the following address:

<http://www.nationalgrid.com/uk/Electricity/Charges/modifications/uscmc/>

2 Introduction

National Grid is obliged under its Transmission Licence:

- (i) to make revisions to the Charging Statements in order that the information set out in the statements shall continue to be accurate in all material respects;
- (ii) to keep the Use of System charging methodology at all times under review;
- (iii) to make such modifications of the Use of System charging methodology as may be requisite for the purpose of better achieving the relevant objectives, which are:
 - (a) to facilitate effective competition in the generation and supply of electricity and (so far as is consistent therewith) to facilitate competition in the sale, distribution and purchase of electricity;
 - (b) to result in charges which reflect, as far as reasonably practicable, the costs (excluding any payments between transmission licensees which are made under and in accordance with the STC) incurred by transmission licensees in their transmission businesses; 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.

Before making a modification to the Use of System charging methodology, National Grid is also required by the Transmission Licence to consult with CUSC Users on the proposed modification and allow them a period of not less than 28 days within which to make written representations.

The purpose of this document is to set out for consultation National Grid's proposal to modify the Statement of the Use of System Charging Methodology to cater for manifest errors in the calculation of TNUoS tariffs to better meet the relevant objective in Standard Licence Condition C5 5(b) of calculating charges which reflect the costs incurred by the transmission licensees in their transmission businesses whilst also taking into account Standard Licence Condition C5 5(c) of taking account of the developments in the transmission licensees' transmission businesses.

3 Background

The 2005/06 charging year saw the implementation of the British Electricity Trading and Transmission Arrangements (BETTA) and the calculation of TNUoS tariffs for Great Britain (GB) for the first time, based on a network dataset provided by each of the three Transmission Licensees.

Some time following the publication of TNUoS tariffs for 2005/06, it was brought to the attention of National Grid that the data used in the Direct Current Load-Flow (DCLF) Transport Model used to calculate the tariffs contained a significant error.

The DCLF Transport Model used to calculate tariffs contained two composite 275kV circuits between Dalmally and Cruachan, comprising 8.1km of 275kV cable and 0.4km of 275kV overhead line per circuit. Further data was subsequently provided by the relevant Transmission Owner (TO) however, which indicated that the two circuits are actually made up of 8.1km of 275kV overhead line per circuit, and 0.4km of cable per circuit.

The impact of including cable lengths in the DCLF Transport Model instead of overhead line is to effectively 'stretch' the length of the circuit by the higher expansion factor used for 275kV cable and this results in a significantly higher marginal km figure for the relevant node. In this instance, the effect was so significant that generation at Cruachan was allocated a TNUoS generation charging zone of its own for 2005/06 in order to meet the generation zoning criteria set out in the Statement of the TNUoS Charging Methodology.¹ Had the correct data been used, Cruachan would have been incorporated into an alternative TNUoS generation charging zone with a lower £/kW TNUoS generation tariff.

The current TNUoS charging methodology does not provide a mechanism by which TNUoS charges can be reconciled in the event that a manifest error such as that described above, is identified and results in TNUoS charges that may no longer be viewed as cost reflective and in accordance with National Grids relevant licence obligations. In June 2006, National Grid published a pre-consultation paper² which sought industry views on the most appropriate way forward for developing and implementing such a mechanism.

4 Industry responses to pre-consultation document

The pre-consultation document invited views from the industry regarding the development and implementation of a transparent mechanism which would ensure that the charging methodologies facilitate appropriate reconciliation in the event that a further manifest error were to result in material change to the annual TNUoS charge of a User. The pre-consultation specifically sought views on the following issues:

1. Definition of a manifest error.
2. Materiality.
3. Period eligible for reconciliation.
4. Mechanics of reconciliation.

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

² <http://www.nationalgrid.com/uk/Electricity/Charges/modifications/uscmc/>

Three responses to the pre-consultation document were received, all of which supported the proposal to develop some form of mechanism for reconciliation. The responses can be viewed on the National Grid charging website.³

4.1 Definition of a manifest error

In the pre-consultation, National Grid invited views as to what exactly might constitute a manifest error in the calculation of TNUoS tariffs. As the data used to calculate TNUoS tariffs is taken from the October update to the GB Seven Year Statement (SYS), National Grid put forward for comment that a manifest error might take the form of any of the following:

1. An error in the contracted Transmission Entry Capacity (TEC) of a generator.
2. An error in a Users Grid Supply Point (GSP) demand forecast.
3. An error in the transmission circuit data provided by the relevant TO.
4. A transcription error in the subsequent input of data into the Transport Model.

National Grid noted that TNUoS tariffs are calculated to be effective from 01 April in any charging year based on data included in the October update to the GB SYS of the preceding year. It is therefore foreseeable that both the contracted TEC of a generator and a Users GSP demand forecast could change between these dates.

In order to comply with National Grid's CUSC obligation of providing sufficient notice of changes to a User's TNUoS tariff however, there has to be a cut off point where tariffs are calculated based on the best view of the demand and generation backgrounds for the forthcoming charging year. In consideration of this, it might be inappropriate to consider either of these circumstances as constituting a manifest error as this could create inappropriate incentives on a User to manipulate the information that they disclose in the preparation of the GB SYS.

In addition to the DCLF Transport Model, National Grid noted that the Tariff Model used to calculate annual TNUoS tariffs for a User has a number of inputs including the global locational security factor, expansion constant, maximum allowed revenue and the revenue split between Generation and Demand. National Grid indicated that any error in the input of these figures should be considered as a manifest error.

Respondents' views

One respondent commented that any error in the transfer of data between TOs or in the population of the DCLF Transport Model with SYS and other input data, should be considered a manifest error. The respondent also noted that any error in the function of the Transport Model should also be considered as a manifest error.

The same respondent noted that TEC data from the October publication of the SYS is an appropriate data source for the Transport Model and provides an incentive on Users to provide the best available data for the SYS and as such, any change in TEC between the October SYS publication and the start of the charging year should not be considered a manifest error.

³ <http://www.nationalgrid.com/uk/Electricity/Charges/modifications/uscmc/>

One respondent commented that a manifest error could take the form of an error in TEC, User demand forecasts, transmission circuit length/types and the subsequent input of data into the Transport Model. The respondent noted that it is the responsibility of National Grid, not the User, to ensure that errors in this data will not occur.

National Grid response

In consideration of the responses to the pre-consultation document, National Grid believes that the following circumstances should be considered as a potential manifest error in the calculation of TNUoS charges:

1. Any error in the transfer of relevant data between the Transmission Licensees.
2. Any error in the population of the Transport Model with data.
3. Any error in the function of the Transport Model.
4. Any error in the inputs or function of the Tariff Model.

National Grid does not believe that a change in the TEC of a generator between the October publication of the SYS and the start of the charging year should represent a manifest error and neither, should an error in a Users demand forecast. Whilst National Grid has an obligation to ensure that errors do not occur in the population of the Transport Model, the provision of accurate demand forecasts are the responsibility of a User in accordance with Section 3.10 of the CUSC, which details the data requirements for the calculation of TNUoS charges and Section 3.12, concerning the validation of demand forecasts.

4.2 Materiality

In the pre-consultation document, National Grid noted that Section 11.3 of the CUSC defines a “material effect” as £10,000, and indicated that in the case of reconciling TNUoS charges as a result of a manifest error, £10,000 should not be the basis for determining whether or not the impact of a manifest error is sufficiently material to undergo a reconciliation process.

An example was provided to illustrate that an error of only 26.7 metres in the measurement of a 275kV cable, could result in a £10,000 error in the calculation of the annual TNUoS charge for a 1000MW generator, demonstrating that the CUSC definition of material is clearly inappropriate in determining whether a manifest error is material, as the margins for error involved are so small.

National Grid invited views on the issue of materiality and suggested that this could be considered in any of the following ways:

1. As an absolute value of a Users annual TNUoS charge.
2. As an absolute value of a Users TNUoS tariff.
3. As a percentage of a Users annual TNUoS charge.
4. As a percentage of a Users TNUoS tariff.

National Grid invited views on whether the most appropriate criteria for determining if a manifest error is sufficiently material to trigger the requirement for reconciliation, might be that of using an absolute value of a Users TNUoS tariff. This approach could be applicable for all demand and generation TNUoS charging zones and would not discriminate against a User on the grounds of the volume of TEC.

The determination of an appropriate absolute value was considered as somewhat arbitrary, but National Grid believed this to be the most appropriate option available and welcomed comments regarding the use of an absolute value of +/-£1.00/kW as the measure of materiality, in line with the current generation zoning criteria.

It was the view of National Grid that the issue of materiality should be considered on the same grounds regardless of whether a manifest error impacts on the TNUoS tariff of a User positively or negatively.

Respondents' views

One respondent believed that +/-£1.00/kW in line with current generation zoning criteria, was a reasonable figure when used to determine whether a manifest error is material.

One respondent agreed that the use of an absolute value of a Users TNUoS tariff should be used as the measure of materiality, and recommended that this should be set at £0.25/kW as this is proportionate to the level of TNUoS tariffs currently set, yet still represents a fair absolute value to those sites with higher TEC values.

One respondent considered the CUSC definition of a “material effect” of £10,000 as too small and added that the use of an absolute value of a Users annual TNUoS charge in determining materiality would not be wholly inappropriate. The respondent did not agree that an absolute value of +/-£1.00/kW would be a reasonable measure of materiality as this was considered as too high a threshold. The respondent recommended either an absolute value of a Users TNUoS tariff of £0.25/kW, or 1.5% of a Users annual TNUoS charge as preferred alternatives, with a de minimis level of £100,000.

National Grid response

National Grid believes that the primary criteria for determining whether a manifest error is sufficiently material to trigger the requirement for reconciliation, should be that of using an absolute value of a Users tariff. This method does not discriminate between Users on the basis of generation capacity, unlike the use of the annual TNUoS charge of a User which could be perceived as doing so. Having recommended +/-£1.00/kW as a starting figure for discussion, National Grid accepts that this figure may represent too high a threshold as this could result in a 1,000MW generator being ineligible for reconciliation of its annual TNUoS charge if an error resulted in a discrepancy of less the £1 million.

In the pre-consultation paper, National Grid noted that the determination of an appropriate absolute value could be considered somewhat arbitrary. A justifiable approach however, may be to determine an acceptable tolerance in the measurement of circuit data which is used in the DCLF Transport Model. By using 1km as an acceptable tolerance, the largest discrepancy which could occur in the calculation of a Users tariff would be that which includes an error in the measurement of 132kV cable, in a Scottish TO region. For 2006/7, 132kV cables in these regions have the highest expansion constant of 27.85. An error in the measurement of this type of circuit of 1km, would result in a discrepancy in the locational element of the annual TNUoS charge of a generator of approximately £0.50/kW. This is demonstrated in the example below, where a TNUoS generation zone is assumed to be occupied by a single generator only.

Example

Marginal km:	1000km
Global Locational Security Factor:	1.8
Expansion Constant:	£10.069080/MWkm

$$\frac{1000\text{km} * 1.8 * \text{£}10.069080/\text{MWkm}}{1000}$$

= Locational element of the TNUoS tariff of £18.124/kW.

Using the same example, with a 1km error (overstated) on the measurement of 132kV cable in a Scottish TO region, the charge for the generator would be calculated as:

Marginal km:	1027.85km
Global Locational Security Factor:	1.8
Expansion Constant:	£10.069080/MWkm

$$\frac{1027.85\text{km} * 1.8 * \text{£}10.069080/\text{MWkm}}{1000}$$

= Locational element of the TNUoS tariff of £18.629/kW.

A 1km overstatement in the measurement of 132kV cable in a Scottish TO region would result in an increase in the tariff of a User by £0.505/kW. Conversely, an understatement of 1km in the measurement would result in a £0.505/kW reduction in a Users tariff.

National Grid therefore proposes that an absolute value of **+/-£0.50/kW** should be used as the threshold when determining whether a manifest error is sufficiently material to undergo a reconciliation process.

Whilst National Grid believes the use of an absolute value of +/-£0.50/kW to be appropriate, it is recognised that there are limitations of using a single criteria for determining materiality particularly when considering larger generators. If a 2,000MW power station for example, were to be subjected to an increase in the TNUoS generation tariff of £0.49/kW as a result of a manifest error in the calculation of the charges, the generator would be liable for an additional £980,000 in TNUoS charges with no mechanism for reconciliation.

In consideration of this, National Grid believes that it would be appropriate to use a secondary criteria to determine whether or not a manifest error should be considered as material, in certain circumstances.

National Grid believes that a secondary criterion should take the form of a de minimus value of a Users annual TNUoS charge. Again, the determination of this value could be considered somewhat arbitrary, but National Grid proposes to set this at +/-£250,000, which represents a +/-£0.50/kW discrepancy for a typical power station of 500MW.

National Grid believes that the primary criteria of +/-£0.50/kW of a Users TNUoS tariff for determining materiality does not discriminate between classes of User as this is equally applicable for all generation and demand Users of all sizes. The secondary criteria of £250,000 of a Users annual TNUoS charge will only come into effect in the event that a Users tariff changes by less than +/-£0.50/kW but results in an increase in the annual TNUoS charge of a User in excess of £250,000 in the charging year. Whilst it is envisaged that this will only come into play in the case of large generators, the criteria will apply equally to both generation and demand.

National Grid does not believe that the CUSC definition of “Material Effect” contained in Section 11.3 is applicable to TNUoS charges and as such, it is viewed that a CUSC amendment regarding the definition of materiality will not be required. It is proposed that the definition of material for a manifest error in the calculation of TNUoS tariffs will be contained in Chapter 4 of the Statement of use of System Charging Methodology. The proposed drafting of which, is included as Appendix 1 of this consultation document.

4.3 Period eligible for reconciliation

In the pre-consultation document, National Grid proffered that the transparency which results from the use of publicly available GB SYS data in the DCLF Transport Model significantly enhances the probability that a manifest error will be identified within the charging year in which it occurs and for a reconciliation of TNUoS tariffs to be undertaken due to a manifest error, the error should be identified within the same charging year. Any subsequent identification of a manifest error beyond this period would not be eligible for reconciliation retrospectively.

Respondents’ views

Two respondents agreed that the transparency which results from the use of publicly available SYS data should enable a User to identify a material manifest error in the calculation of TNUoS charges within the charging year within which it occurs and noted that errors identified beyond this period should not be eligible for retrospective reconciliation.

One respondent did not agree that the use of publicly available SYS data in the DCLF Transport Model results in the likelihood of a User identifying a manifest error in TNUoS charges and added that it is unlikely that a User will ever identify any error that is not significant. The respondent considered that any reconciliation should not be restricted to the year in which the error occurs but over an extended period, such as the duration of a price control. The respondent considered that the end of a price control could be considered an appropriate time for National Grid to audit its charges and assess whether it has over or under charged Users. The respondent believed the onus to be on National Grid, not the User, to check this and if necessary, to use the next Transmission Price Control Review (TPCR) to recover any additional costs.

National Grid response

National Grid believes that the onus is very much on National Grid to ensure that the data used in the calculation of annual TNUoS tariffs is accurate in all respects, to ensure that tariffs fully meet the relevant objectives of the transmission licence. As such, the data used to calculate tariffs undergoes a rigorous internal audit process on an annual basis. National Grid highlight that the error in the calculation of 2005/6 TNUoS charges was the first of its type and the result of the transfer of significant

volumes of data between the TOs and National Grid in the lead up to major industry reform and it should be recognised that such an error is unlikely to re-occur.

National Grid continues to believe that the use of publicly available SYS data in the DCLF Transport Model and the availability of the model itself to CUSC signatories, results in the calculation of TNUoS tariffs in an open and transparent manner. National Grid believe that such transparency significantly enhances the probability that a manifest error will be identified within the charging year in which it occurs.

In consideration of this, National Grid proposes that for a reconciliation of TNUoS tariffs to be undertaken due to a manifest error which results in a material impact on a Users TNUoS tariff, the manifest error should be identified within the charging year in which it occurs. National Grid believes that if such an error is not identified within the charging year within which it occurs, it is extremely unlikely that the error will be identified at a later date.

National Grid does not consider the end of a price control period to be an appropriate time in which to audit whether Users have been over/under charged as tariff calculation is performed on an annual basis involving a rigorous internal audit process of the DCLF Transport Model and the data which it includes. National Grid does not consider the use of a TPCR as the basis for recovering costs as appropriate, as any reconciliation of a User's TNUoS charge resulting from a manifest error should be performed as soon as practicable.

4.4 Mechanics of reconciliation

National Grid identified that the mechanics of a reconciliation process might take the form of any of the following options:

1. Within-year reconciliation of TNUoS tariffs.
2. Post-year reconciliation in line with the current TNUoS reconciliation mechanisms used for generation and demand.
3. Post-year reconciliation as a one-off payment.

Considering the timescales that may be involved in identifying a manifest error and National Grid's requirement to give 150 days notice to the Authority of any proposals to change the Use of System charging methodology, National Grid identified that a within-year reconciliation option would not be achievable in most circumstances. Additionally, National Grid proffered that it is in the interest of Users for TNUoS tariffs to remain stable throughout a charging year and as such, a post-year reconciliation process would be more suitable.

National Grid noted its preferred option be that of undertaking a reconciliation process similar to that which currently prevails for demand and generation Users, where this is practicable. Where reconciliation due to a manifest error within the framework of the current TNUoS reconciliation process is not practicable, a post-year reconciliation in the form of a one-off payment was recognised as being potentially the most suitable solution.

Respondents' views

One respondent noted the preferred route for a reconciliation process as utilising the existing mechanism and timetable for reconciliation currently used by demand Users

and generation Users where this is practicable. Where this is not practicable, a one-off payment was the recommended solution.

One respondent noted that where the error is outside of National Grid's control, a within-year reconciliation would not be appropriate and it may be worth considering using the K_t mechanism for revenue under/over recovery for reconciling charges in the following year, as this would give the least disturbance for the relevant charging year. The respondent noted that in the unlikely event of an error that National Grid could reasonably have been expected to identify, National Grid should be expected to bear the costs of re-imbursing any over-charged Users.

One respondent believed that by not providing a mechanism by which TNUoS tariffs could be reconciled within-year, a User will be exposed to paying the erroneous TNUoS charge until the end of the charging year, which was considered unfair. The respondent also considered a suspension of payments as inappropriate as this would expose all other Users to another User not paying their charges. The respondent believed that within-year reconciliation of charges could be possible as the Authority does have the power to instruct/permit National Grid to change the TNUoS charging methodology at less than the usually required 150 days notice and the only suitable solution would be for TNUoS charges to be reconciled with immediate effect with a net debit/credit to the User and application of the correct TNUoS tariff from that point forward.

National Grid response

National Grid note that Standard Licence Condition C4 of the transmission Licence permits National Grid to give less than 150 days notice to the Authority of any proposals to change the Use of System charging methodology, where the Authority consents to a shorter period. As such, it is feasible that in the event of a manifest error in the calculation of TNUoS tariffs, a within-year reconciliation process could take place. National Grid does not believe however, that this would be in the interest of Users in terms of providing stability in TNUoS charges. National Grid accept that where a User is over-charged as a result of manifest error, it could be considered unfair to continue to levy the erroneous charge for the entirety of the charging year, although the converse is true in the event that a User has been under-charged, which is equally likely. National Grid therefore continues to believe that within-year reconciliation of TNUoS charges in the event of a manifest error in the calculation of charges is not the most satisfactory solution for both National Grid and the User and that any required reconciliation should take place post charging year.

National Grid continues to believe that the most appropriate option for post-year reconciliation would be to undertake a reconciliation process for eligible Users (as defined previously) using the recalculated tariffs, similar to that which currently prevails for demand and generation Users, where this is practicable. The process for this is set out in the Statement of the TNUoS Charging Methodology (included as Appendix 1) and Section 3 of the CUSC (included as Appendix 2).

For eligible demand Users, this would involve an initial reconciliation stage for both HH and NHH demand, followed by a final reconciliation using the final demand reconciliation data taken from the final reconciliation settlement run or the final reconciliation volume allocation run. For materially affected generation Users, as TNUoS tariffs are calculated based on TEC, not metered volumes, a single reconciliation could take place in line with the timescales involved in the current generation reconciliation process.

Where reconciliation due to a manifest error within the framework of the current TNUoS reconciliation process is not practicable, a post-year reconciliation in the form of a one-off payment is proposed as the most suitable solution.

National Grid believe that it would be appropriate for all variances in allowed revenue resulting from the reconciliation of TNUoS tariffs as a result of a manifest error, to be included within the calculation of any under/over recovery of income for the year.

5 Proposed modification

5.1 Description of proposed modification

National Grid are proposing to modify Chapter 4: Demand Charges, and Chapter 5: Generation Charges, of the Statement of the Use of System Charging Methodology to include a mechanism by which TNUoS charges can be reconciled in the event of a manifest error which results in a material discrepancy in a Users TNUoS charge. The proposed drafting of the modifications to the Statement of Use of System Charging Methodology is included as Appendix 1.

Definition of a manifest error

National Grid is proposing that a manifest error shall be defined as any one of the following:

1. An error in the transfer of relevant data between the Transmission Licensees.
2. An error in the population of the Transport Model with relevant data.
3. An error in the function of the Transport Model.
4. An error in the population of the inputs, or function of the Tariff Model.

Materiality

In the event of a manifest error, a Users TNUoS charge shall be reconciled if the impact is considered material. National Grid is proposing that the material test be:

1. An error in a Users TNUoS tariff of +/-£0.50/kW or greater; or
2. An error in a Users TNUoS tariff which results in an error in the annual TNUoS charge of +/-£250,000 or greater.

Period eligible for reconciliation

National Grid is proposing that a Users TNUoS charges will be eligible for reconciliation in the event that a material manifest error has been identified within the charging year for which the error has an effect. Any subsequent identification of a manifest error which has a material impact on a Users TNUoS tariff beyond the charging year in which this occurs will not be considered as eligible for reconciliation.

Mechanics of reconciliation

National Grid is proposing that the appropriate mechanism for a reconciliation process in the event of a material manifest error is that of the existing methodology which prevails for demand and generation Users where this is practicable. The reconciliation process is set out in the revised methodology drafting contained in Appendix 1, whilst Appendix 2 outlines the reconciliation process as set out in the CUSC. Only Users who are eligible under the definition of materiality above, would have their charges reconciled based on a recalculated tariff.

Where reconciliation due to a manifest error within the framework of the current TNUoS reconciliation process is not practicable for any reason, a post-year reconciliation in the form of a one-off payment is proposed as the most suitable solution.

Regardless of the mechanism for reconciliation, National Grid believe that it will be appropriate for all variances in allowed revenue resulting from the reconciliation of TNUoS tariffs as a result of a manifest error, to be included within the calculation of any under/over recovery of income for that year.

5.2 Justification for proposed modification

The proposed modification to the Statement of Use of System Charging Methodology is to implement a mechanism by which a User's annual TNUoS charge can be reconciled in the event that a manifest error results in a material difference in the TNUoS charges of a User. The modification will enable National Grid to better meet the relevant objectives in Standard Licence Condition C5 5(b) of calculating charges which reflect the costs incurred by the transmission licensees in their transmission businesses whilst also taking into consideration Standard Licence Condition C5 5(c) of taking account of the developments in the transmission licensees' transmission businesses.

5.3 Impact on other industry documents

It is not anticipated that the proposed modification will require a modification to any other industry documents, although National Grid welcome the views of the industry on this.

5.4 Implementation date

The implementation date for the proposed change will be 28 days after furnishing the conclusions report to the Authority, subject to non-veto. National Grid will be seeking to implement the modification proposal prior to 01 April 2007 and facilitate a mechanism by which 2006/7 TNUoS charges can be reconciled in the event that a manifest error which results in a material impact on a Users TNUoS charge is identified in the current charging year.

In the specific case of Cruachan, it is no longer practicable to reconcile TNUoS charges in line with the timescales involved with the current process for reconciling TNUoS generation charges. As such, in this particular case, National Grid is proposing to apply the proposed modification subject to non-veto by the Authority, retrospectively by reconciling the Users 2005/6 TNUoS charges in the form of a one-off payment.

6 Responses to this consultation

Comments and views are invited on all of the issues raised in this consultation document. To ensure that your comments and views are considered as part of National Grid's Conclusions Report to the Authority, responses must be received by close of business on Friday 08 September 2006.

If you wish to provide comments on this consultation document, responses are preferred via email to: Craig.Maloney@uk.ngrid.com

Alternatively, Users can send their comments in writing, addressed to:

Craig Maloney
Electricity Charging & Access Development
National Grid Electricity Transmission plc
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

If you have further queries, please do not hesitate to contact Craig on 01926 655896.

APPENDIX 1 – Proposed drafting of the Statement of Use of System Charging Methodology

Chapter 4: Demand Charges

Reconciliation of Demand Charges

- 4.16 The reconciliation process is set out in the CUSC. The demand reconciliation process compares the monthly charges paid by Users against actual outturn charges. Due to the Settlements process, reconciliation of demand charges is carried out in two stages; initial reconciliation and final reconciliation.

Initial Reconciliation of demand charges

- 4.17 The initial reconciliation process compares Users' demand forecasts and corresponding monthly charges paid over the year against actual outturn data (using latest Settlement data available at the time) and corresponding charges. Initial reconciliation is carried out in two parts; Part 1 deals with the reconciliation of half-hourly metered demand charges and Part 2 deals with the reconciliation of non-half-hourly metered demand charges.

Initial Reconciliation Part 1– Half-hourly metered demand

- 4.18 National Grid will identify the periods forming the Triad once it has received Central Volume Allocation data from the Settlement Administration Agent for all days up to and including the last day of February. Once National Grid has notified Users of the periods forming the Triad they will not be changed even if disputes are subsequently resolved which would change the periods forming the Triad.
- 4.19 Initial outturn charges for half-hourly metered demand will be determined using the latest available data of actual average Triad demand (kW) multiplied by the zonal demand tariff (£/kW) for each zone for that Financial Year. These actual values are then reconciled against the monthly charges paid in respect of half-hourly demand.

Initial Reconciliation Part 2 – Non-half-hourly metered demand

- 4.20 Actual payments for non-half-hourly metered demand will be determined using the latest available actual energy consumption data (kWh) for the period 16:00 hrs to 19:00 hrs inclusive (i.e. settlement periods 33 to 38) over the year multiplied by the energy consumption tariff (p/kWh) for each zone. These actual values are then reconciled against the monthly charges paid in respect of non-half-hourly energy consumption.

Final Reconciliation of demand charges

- 4.21 The final reconciliation process compares Users' charges (as calculated during the initial reconciliation process using the latest available data) against final outturn demand charges (based on final settlement data).

- 4.22 Final actual charges will be determined using the final demand reconciliation data taken from the Final Reconciliation Settlement Run or the Final Reconciliation Volume Allocation Run.

Reconciliation of Manifest Errors

4.23 In the event that a manifest error in the calculation of TNUoS tariffs results in a material discrepancy in a Users TNUoS tariff, the reconciliation process for all Users qualifying under Section 4.25 will be in accordance with Sections 4.16 to 4.22. The reconciliation process shall be carried out using recalculated TNUoS tariffs. Where such reconciliation is not practicable, a post-year reconciliation will be undertaken in the form of a one-off payment.

4.24 A manifest error shall be defined as any of the following:

- a) an error in the transfer of relevant data between the Transmission Licensees;
- b) an error in the population of the Transport Model with relevant data;
- c) an error in the function of the Transport Model; or
- d) an error in the inputs or function of the Tariff Model.

4.25 A manifest error shall be considered material in that event that such an error has an impact of the lesser of either:

- a) an error in a Users TNUoS tariff of at least +/-£0.50/kW; or
- b) an error in a Users TNUoS tariff which results in an error in the annual TNUoS charge of a User in excess of +/- £250,000.

4.26 A manifest error shall only be reconciled if it has been identified within the charging year for which the error has an effect. Errors identified outside of this period will not be eligible for reconciliation retrospectively.

Chapter 5: Generation Charges

- 5.17 Initial Transmission Network Use of System Generation Charges for each Financial Year will be based on the Power Station Transmission Entry Capacity (TEC) for each User as set out in their Bilateral Agreement. The charge is calculated taking the forecast Chargeable Capacity and multiplying it by the zonal £/kW tariff. This annual TNUoS generation charge is split evenly over the 12 months and charged on a monthly basis over the year. For positive charging zones, if TEC increases during the charging year, the party will be liable for the additional charge incurred for the **full** year, which will be recovered uniformly across the remaining chargeable months in the relevant charging year (subject to Paragraph 5.18 below). An increase in monthly charges reflecting an increase in TEC during the charging year will result in interest being charged on the differential sum of the increased and previous TEC charge. The months liable for interest will be those preceding the TEC increase from April in year t. For negative charging zones, any increase in TEC during the year will lead to a recalculation of the monthly charges for the remaining chargeable months of the relevant charging year. However, as TEC decreases do not become effective until the start of the financial year following approval, no recalculation is necessary in these cases. As a result, if TEC increases, monthly payments to the generator will increase accordingly.

Reconciliation of Generation Charges

5.22 The reconciliation process is set out in the CUSC and in line with 5.17 above.

5.23 In the event of a manifest error in the calculation of TNUoS charges which results in a material discrepancy in a Users TNUoS charge as defined in Sections 4.24 to 4.26, the generation charges of Users qualifying under Section 4.25 will be reconciled in line with 5.17 and 5.22 using the recalculated TNUoS tariffs.

APPENDIX 2 – CUSC reconciliation process

3.13 RECONCILIATION STATEMENTS

Calculation of Initial Reconciliation

3.13.1 On or before 30 June in each Financial Year, The Company shall promptly calculate in accordance with the Statement of the Use of System Charging Methodology and the Statement of Use of System Charges the Demand related or generation related Transmission Network Use of System Charges (as the case may be) that would have been payable by the User during each month during the preceding Financial Year (Actual Amount). The Company shall then compare the Actual Amount with the amount of Demand related or generation related Transmission Network Use of System Charges (as the case may be) paid each month during the preceding Financial Year by the User (the “Notional Amount”).

Generation Reconciliation

3.13.2 As soon as reasonably practicable and in any event by 30 April in each Financial Year The Company shall prepare a generation reconciliation statement (the “Generation Reconciliation Statement”) in respect of generation related Transmission Network Use of System Charges and send it to the User. Such statement shall specify the Actual Amount and the Notional Amount of generation related Transmission Network Use of System Charges for each month during the relevant Financial Year and, in reasonable detail, the information from which such amounts were derived and the manner in which they were calculated.

3.13.3 Together with the Generation Reconciliation Statement, The Company shall issue a credit note in relation to any sums shown by the Generation Reconciliation Statement to be due to the User or an invoice in respect of sums due to The Company and in each case interest thereon calculated pursuant to Paragraph 3.13.6 below.

Initial Demand Reconciliation Statement

3.13.4 As soon as reasonably practicable and in any event by 30 June in each Financial Year The Company shall then prepare an initial Demand reconciliation statement (the "Initial Demand Reconciliation Statement") in respect of Demand related Transmission Network Use of System Charges and send it to the User. Such statement shall specify the Actual Amount and the Notional Amount of Demand related Transmission Network Use of System Charges for each month during the relevant Financial Year and, in reasonable detail, the information from which such amounts were derived and the manner in which they were calculated.

3.13.5 Together with the Initial Demand Reconciliation Statement The Company shall issue a credit note in relation to any sum shown by the Initial Demand Reconciliation Statement to be due to the User or an invoice in respect of sums due to The Company and in each case interest thereon calculated pursuant to Paragraph 3.13.6.

3.13.6 General Provisions

(a) *Invoices issued under paragraphs 3.13.3 and 3.13.5 above and 3.13.8 (b) below shall be payable within 30 days of the date of the invoice.*

(b) *Interest on all amounts due under this Paragraph 3.13 shall be payable by the paying CUSC Party to the other on such amounts from the date of payment applicable to the month concerned until the date of actual payment of such amounts and such interest shall be calculated on a daily basis at a rate equal to the Base Rate during such period.*

3.13.7 Final Reconciliation Statement

(a) The Company shall as soon as reasonably practicable following receipt by it of the Final Reconciliation Settlement Run or Final Reconciliation Volume Allocation Run as appropriate in respect of the last Settlement Day in each Financial Year issue a further Demand reconciliation statement (the "Final Demand Reconciliation Statement") in respect of Demand related Transmission Network Use of System Charges payable in respect of each month of that Financial Year showing:-

(i) any change in the Demand related Transmission Network Use of System Charges from those specified in the Initial Demand Reconciliation Statement provided in accordance with Paragraph 3.13.4;

(ii) whether the change represents a reconciliation payment owing by The Company to a User or by a User to The Company;

(iii) the amount of interest determined in accordance with Paragraph 3.13.6 above; and

- (iv) the information from which the amounts in (i) above are derived and the manner of their calculation.
 - (b) Together with the Final Demand Reconciliation Statement The Company shall issue a credit note in relation to any sum shown in the Final Demand Reconciliation Statement to be due to the User or an invoice in respect of sums due to The Company and in each case interest thereon calculated pursuant to Paragraph 3.13.6.
 - (c) Payment of any invoice issued pursuant to Paragraph 3.13.7(b) above or the application of any credit note issued pursuant to that paragraph against any liability of the User to The Company for Demand related Transmission Network Use of System Charges will be in full and final settlement of all Demand related Transmission Network Use of System Charges for the Financial Year to which the invoice or credit note relates provided that nothing in this Paragraph 3.13.8(c) shall affect the rights of the parties under the provisions of Paragraph 7.3.5.
- 3.13.8 The right to submit Generation Reconciliation Statements, Initial Demand Reconciliation Statements and Final Demand Reconciliation Statements and the consequential invoices and/or credit notes shall survive the termination of the User's rights under the CUSC and the parties agree that the provisions contained in Paragraphs 3.13 and 3.14 shall continue to bind them after such termination (the version in existence at the date of termination being the applicable version in the case of any amendments).