



# **Scottish Power Energy Networks**

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**STATEMENT OF THE BASIS OF  
TRANSMISSION OWNER CHARGES  
APPLICABLE FROM 1 JUNE 2008**

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**THIS STATEMENT HAS BEEN APPROVED BY THE GAS AND ELECTRICITY  
MARKETS AUTHORITY**

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## 1 INTRODUCTION

### 1.1 Licence obligations

SP Transmission Limited (SPT) is required under its transmission licence, Special Condition J10, to prepare this statement which sets out the basis on which charges will be made to NGET as GB System Operator (GBSO) for transmission services as specified in the System Operator/Transmission Owner Code (STC). These services include the planning, development, construction, maintenance and operation of new connections to the licensee's transmission system.

In respect of connections to the licensee's transmission system, the licensee is obliged to include in the statement: -

- (a) a schedule listing those items (including the carrying out of works and the provision and installation of electric lines or electrical plant or meters) of significant cost liable to be required for the purpose of connection (at entry or exit points) to the licensee's transmission system for which site specific charges may be made or levied and including (where practicable) indicative charges for each such item and (in other cases) an explanation of the methods by which and the principles on which such charges will be calculated;
- (b) the methods by which and the principles on which site specific charges will be made in circumstances where the electric lines or electrical plant to be installed are (at the licensee's discretion) of greater size or capacity than that required;
- (c) the methods by which and the principles on which any charges (including any capitalised charge) will be made for maintenance, replacement and repair required of electric lines, electrical plant or meters provided and installed for making a connection to the licensee's transmission system;
- (d) the methods by which and the principles on which any charges will be made for disconnection from the licensee's transmission system and the removal of electrical plant, electric lines and ancillary meters following disconnection; and
- (e) such other matters as shall be specified in directions issued by the Authority from time to time for the purpose of this condition.

### 1.2 Cost Allocation

Transmission charges reflect the costs of connection assets employed, net of any capital contributions. This includes a gross asset value (GAV), a depreciation charge, a return on the net asset value (NAV) and the cost of operating and maintaining the connection assets.

Hence, connection assets that have been financed by NGET through capital contributions will be exempt from the depreciation and rate of return elements of the charges, but will be subject to charges for ongoing operation and maintenance. Where meter connection assets or services are provided by SPT, the associated costs are recovered in connection charges.

For the purposes of this statement, all connection assets at a given location shall together form a connection site.

Connection assets are defined as all those single user assets which:

- a) for double busbar type connections, are those single user assets connecting the User's assets and the first SPTL owned substation, up to and including the double busbar bay;
- b) for teed or mesh connections, are those single user assets from the User's assets up to, but not including, the HV disconnector or the equivalent point of isolation;
- c) for cable and overhead lines at a transmission voltage, are those single user connection circuits connected at a transmission voltage equal to or less than 2km in length that are not potentially shareable.

Shared assets at a banked connection arrangement will not normally be classed as connection assets except where both legs of the banking are single user assets under the same Bilateral Connection Agreement.

Operation and maintenance charges include:

- a proportion of the cost of running the transmission business;
- standby and out of hours service;
- payment of local authority charges associated with the connection site (if owned by SPT); and
- total site care covering site safety, security and environmental protection and liaison with local authorities, wayleave grantors and members of the public.

### **1.3 Notification of Charging Information to NGET**

SPT, under Special Condition J8 of its licence, will notify NGET of its best estimates for the amounts TSP<sub>t</sub> and EXSt in respect of year t by 1st November of year t-1, where:

TSP<sub>t</sub> means an amount no more than TO<sub>t</sub> - EXS<sub>t</sub>.

TO<sub>t</sub> means the allowed transmission owner revenue in the relevant year t calculated in accordance with special condition J2 (Restriction of transmission charges: revenue from transmission owner services); and

EXS<sub>t</sub> means the connection charges, if any, which are remunerated under special condition J2 (Restriction of transmission charges: revenue from transmission owner services) in respect of connections made after the grant of this licence

and for the avoidance of doubt, such charges may include charges for the operation and maintenance of the relevant connection

and where the aggregate of TSP and EXS<sub>t</sub> is equivalent to the regulated transmission revenue of the licensee in relevant year t.

**Other charging data will be provided to NGET in accordance with the STC and relevant STC procedures.**

## 2 GENERAL SYSTEM CHARGES

SPT's Transmission Price Control, set by the Authority, recovers the following costs:

- (a) Capital costs for providing, replacing and/or refurbishing SPT's Infrastructure assets
- (b) Capital costs for replacing and/or refurbishing SPT's pre-Vesting Connection Assets, and
- (c) Operating and maintenance costs associated with all SPT's assets

The Total Allowed Revenue as set by the Price Control in year t is the term TOt in SPT's transmission licence and is referred to as TO General System Charges in the STC. General System Charges include all O&M Charges for all pre and post-vesting connection assets including metering.

One twelfth of the total allowed revenue TOt (which may be subject to amendment) will be billed to NGET each month. In respect of the relevant year commencing 1 April 2007 and each subsequent relevant year t, allowed transmission owner revenue shall be calculated in accordance with the SPT's transmission licence.

### 3 SITE SPECIFIC CHARGES

#### 3.1 Pre-Vesting Connection Assets

Connection capital charges for Pre-Vesting connection assets will be recovered through General System Charges and are not addressed in this document.

#### 3.2 Post-Vesting Connection Assets

Post-Vesting connection assets are excluded from SPT's Price Control and SPT's capital costs associated with them are referred to as 'site specific'. In accordance with the STC, the capital costs of providing new connections or modifying existing connections to SPT's transmission system will be recovered from NGET.

#### 3.3 Payment Options

The capital cost of constructing or modifying connection assets, including overheads can be paid in one of four ways:

##### 3.3.1 Option 1 Annual Charges, Out-turn Price

For connections where NGET elects to pay all or part of the actual installation costs by Annual Charges, over a period of up to 40 years, the annual charges are calculated as follows:

Gross Asset Value (GAV\*) = Connection Price

Annual Charge = Depreciation Charge + Return Charge

$$\text{Depreciation Charge} = \frac{\text{GAV}^*_{\text{adj}}}{40}$$

Return Charge = Net Asset Value (NAV\*\*) x Return\*\*\*

Capital Charge (CC) = One-off payment by NGET to SPT

$$\text{Adjusted GAV}(\text{GAV}^*_{\text{adj}}) = \text{GAV}^* - \text{CC}^*$$

Asset Age = Age at 1<sup>st</sup> April each year, rounded up to the nearest year

$$\text{Net Asset Value(NAV)}^* = \text{GAV}^*_{\text{adj}} \times \frac{39.5 - \text{Age}}{40}$$

\* Indexed annually by RPI<sub>n</sub>, where RPI<sub>n</sub> =  $\frac{\text{May to October average RPI in year } n-1}{\text{May to October average RPI in year } n-2}$

\*\* NAV is based on the revalued GAV\*

\*\*\* Return = a reasonable rate of return (normally 6.87%, but may be higher in line with the risk profile).

The depreciation period for Post-Vesting connection assets may, by mutual agreement, be less than 40 but not more than 40 years.

One off-works (i.e. works requested in excess of the minimum scheme) will be paid as a one-off capital charge, rather than annual charges. Therefore only sole-use connection assets may be paid for by annual charges.

### **3.3.2 Option 2 Annual Charges, Firm Price**

The connection price is based on a firm price estimate of the costs of the connection works, and is calculated as in Option 1, except that the firm price may include a risk margin to allow for possible variances above the estimate, which might occur for any reason. Due to the current long lead times for new connections (eg the transmission outage programme, which can be as much as 5 years, and the expected time to obtain planning consents), it may not be feasible for the Company to offer firm prices.

### **3.3.3 Option 3 Capital Contribution, Out-turn Price**

For connections where NGET elects to pay for the installation costs in full, NGET will make milestone payments, based on fair and reasonable estimate of the value of work to be done at each stage, with the final payment made, following a reconciliation of the actual costs incurred in completing the connection assets and paid in advance of commissioning the connection.

The Capital Contribution is calculated as follows:

Gross Asset Value (GAV) = Capital Contribution

Capital Contribution = Construction Costs\* + Margin\*\*.

\* including overheads

\*\* A reasonable margin (normally 6.87% of the Construction Costs)

### **3.3.4 Option 4 Capital Contribution, Firm Price**

Full capital contribution based on a firm price estimate of the costs of the connection works. The connection price will be calculated as in Option 3 except that the Construction Costs will include a risk margin to allow for increases, which might occur for any reason.

Should NGET choose this option, milestone payments will be paid at the stages agreed in the construction agreement.

SPT will consider on a case-by-case basis a combination of the above options. It should also be noted that all offers made by the Company, in response to a new or modified connection application by NGET, will initially be made on an indicative basis. Should a firm price offer be requested, a fixed connection charge will only be provided at a later date after tender returns for major plant items and other material expenditure have been received.

### 3.4 Early Termination of Commissioned Connections

Costs of new connections will be fully recoverable from NGET in all circumstances, including the liability to pay a Termination Amount where a Connection Agreement is terminated by NGET.

If a connection charge is paid by annual charges and NGET gives notice of termination of the Connection Agreement prior to the expiry of the economic life of the connection assets, SPT will require NGET to pay a Termination Amount. This will recover the Net Asset Value (NAV) of the connection assets plus the cost of removing the connection assets if required.

The Termination Amount will be calculated as follows:

NGET will be liable to pay an amount equal to the NAV of such connection assets as at the end of the financial year in which termination or modification occurs, plus:

- The reasonable costs of removing such connection assets. These costs being inclusive of the costs of making good the condition of the connection site; and
- If a connection asset is terminated before the end of a financial year, the connection charges for the full year remains payable.

The calculation of termination amounts for financial year n is as follows:

Termination Charge<sub>n</sub> =  $C_n + NAV_n + R$  where:

$C_n$  = Outstanding Connection Charge for year n

$NAV_n$  = NAV of connection assets at 31 March of financial year n

$R$  = Reasonable costs of removal of redundant connection assets and making good.

Reasonable costs of removal for terminated connection assets and making good the condition of the site include:

- modifications to protection systems should a circuit breaker be decommissioned as a result of a User leaving a site
- civil engineering works associated with restoring ground levels as a result of removing connection assets.

### **3.5 Re-Use of Connection Assets after Early Termination**

Should the connection assets be re-used, such that SPT receives connection charges as a result of their use, part of the termination charge will be refunded to NGET. The amount refunded will depend on the proportional extent to which the original income stream is replaced. The refund will be based on the NAV at the time the asset is brought back into use, less the cost of maintaining and storing the asset whilst out of service.

Should a period of more than 5 years elapse before re-use of the terminated connection assets, a partial refund of the termination payment will be made provided clear financial evidence of payment of such termination amount is provided by NGET.

### **3.6 Early Replacement**

If SPT considers that connection assets require to be replaced prior to the end of their normal economic lifetime, the replacement costs will be borne by SPT within the remaining economic life of the original connection assets. On expiry of the expected lifetime of the original connection assets, the connection charge will be recalculated taking account of the NAV of the replacement connection assets, together with the normal provision for depreciation.

### **3.7 Transmission Operation and Maintenance Costs**

Operating and maintenance charges for all transmission assets will be collected through General System Charges and are not addressed in this statement.

### **3.8 Early Termination of Transmission Reinforcement Works**

When a TO Construction Agreement for a connection is terminated by NGET prior to completion of the works then, in addition to the costs incurred at the time of termination for connection assets, NGET must also pay, to SPT, the costs incurred at the time of termination for any transmission works which were required as a direct consequence of the NGET Construction Application.

## 4 OTHER CHARGES

### 4.1 Application Fees

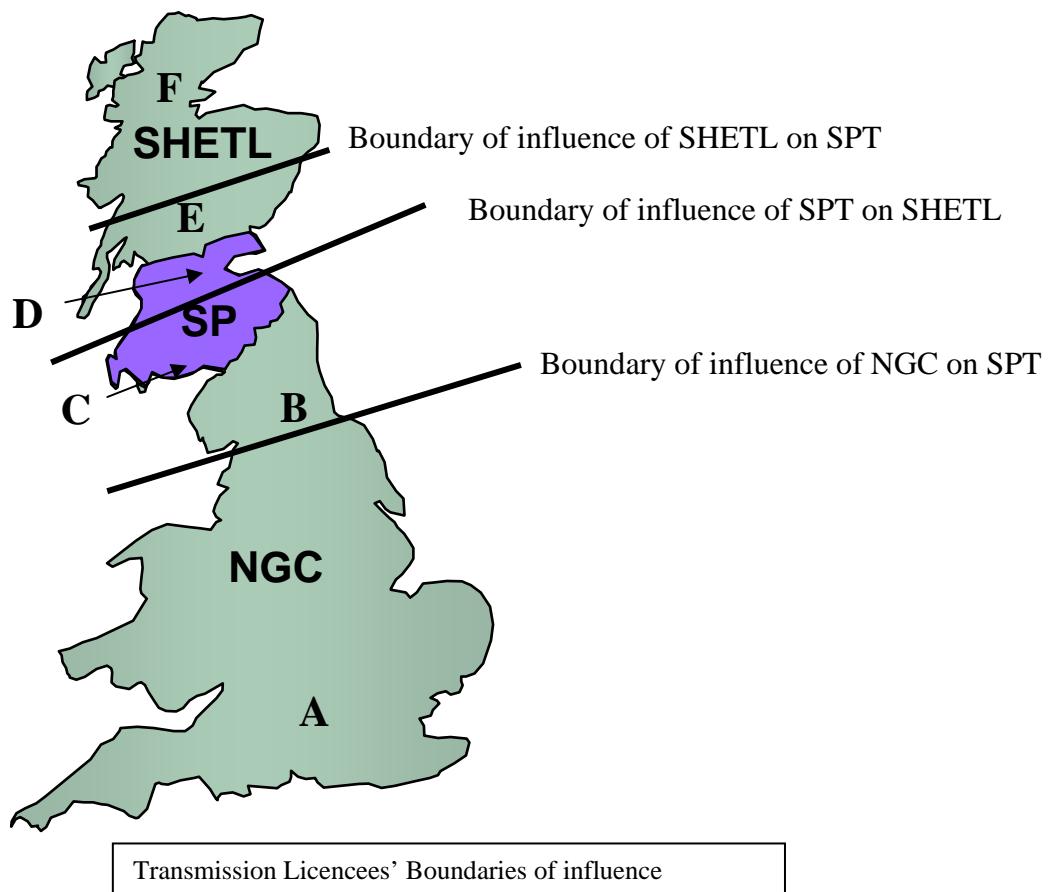
If, as a consequence of a User Application, NGET considers it may be necessary for a construction project to be undertaken in respect of such User Application, and it submits a Construction Application to SPT, SPT will charge NGET a fee at the time of each application.

This fee is intended to cover engineering costs and other expenses involved in preparing a TO Construction Offer or for carrying out the works necessary to determine that a TO Construction Offer is not required under Standard Condition D4A of SPT's licence. NGET has the option of paying either a fixed application fee or a fee based on the actual outturn cost. All application fees and fees for feasibility studies are subject to the addition of VAT and are non-refundable.

#### 4.1.1 Fixed Fees

Should NGET elect to pay a fixed fee for its Construction Application, SPT will charge NGET the appropriate application fee shown in Appendix A for a new connection, or Appendix B for a modified connection. SPT reserves the right to vary these amounts in exceptional circumstances. Fees will be applied depending on which zone the connection will be constructed – see below and Appendices A & B.

These zones are set out in detail in Schedule 4 of the STC.



#### **4.1.2 Variable Price Application Fees**

For a variable price application, where NGET requests the actual engineering and other costs incurred, SPT will charge NGET the fixed fee in the appropriate table and carry out reconciliation once the actual costs have been established. Actual costs will be based on the SPT engineering charge-out rates shown in Appendix C.

#### **4.1.3 Changes to Planning Assumptions**

Should NGET notify SPT of changes in the planning assumptions after receipt of an application fee, SPT may levy an additional charge.

### **4.2 Feasibility Studies**

Should NGET request assistance with the preparation of a feasibility study, charges may be on a fixed fee or actual cost basis, by mutual agreement. The scale of the fee will be set on a case-by-case basis and will take into account the nature and extent of the work.

### **4.3 One-Off Costs and Additional Works Requested**

To provide or modify a connection, SPT may require to carry out works on the transmission system, which although directly attributable to the connection, may not give rise to additional connection assets. These costs are referred to as “one-off costs”. Where these costs cannot be justified by planning standards and are incurred as a direct result of NGET’s Construction Application, they will be included in the TO Construction Offer and charged accordingly.

The incremental costs of additional infrastructure related works above the minimum scheme required to connect a customer would always be recovered as a one-off capital charge.

Requests for diversions of transmission lines or cables, in connection with an application for a new or modified connection, including removal or relocation of towers will be treated as one-off costs, the charges for which will be calculated as in section 3.3.3.

The costs of Category 1 and 3 inter-tripping schemes for Generator connections (as defined in the Grid Code and the CUSC) will be recovered as one-off costs<sup>1</sup>.

### **4.4 Abortive Works Charges**

If as a result of a modification application to reduce TEC, received after commencement of the Company’s Works, SPT is required to change the specification of the transmission construction works and SPT has previously carried out some or all of the said works which

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<sup>1</sup> Category 1 schemes are those which have been initiated by the User, either as a result of a variation to the design or to allow early connection of generation, which would otherwise be delayed until infrastructure works can be completed. Category 3 are schemes which the User has elected as an alternative to reinforcement of a distribution network affected by the generation connection.

are now no longer required (“**Abortive Works**”) NGET shall be required to make a payment to SPT in respect of:

all fees, expenses and costs of whatever nature reasonably and properly incurred or due by SPT in respect of the Abortive Works for which SPT is responsible or has or may otherwise become liable,

in respect of the Abortive Works;

#### **4.5 Charges for Land Purchase, Consents and Wayleaves**

Any capital costs incurred in providing a new or modified connection relating to planning and other statutory Consents; all wayleaves, easements, servitude rights, rights over or interests in land or any other consent; and permission of any kind as required for the construction of the connection shall be paid to SPT by NGET. These costs will cover all of the SPT’s engineering charges and out-of-pocket expenses incurred.

These out-of-pocket expenses may include planning inquiries or appeals; the capital costs together with reasonable legal and surveyors costs of landowners or occupiers in acquiring permanent easements, or other rights over land, in respect of any electric line or underground cable forming part of the new transmission connection.

Charges for legal costs associated with land purchase or access Consents would be due under the Construction Agreement for connection applications. Costs of this work will be charged in accordance with the charge-out rates in Appendix C.

Any capital costs incurred by SPT in acquiring land, shall be treated as infrastructure works and recovered through General System Charges.

#### **4.6 Outages Rearranged at the NGET’s Request**

Should NGET request SPT to rearrange an outage, which has been planned and mutually agreed following the process outlined in the STC, NGET will pay SPT the unavoidable costs associated with re-arranging the outage.

#### **4.7 Contestable Connection Works**

Users may also elect to carry out certain contestable areas of connection works. Such arrangements would be subject to the assets being designed and installed to suitable technical standards to be agreed between SPT and the User to ensure the ongoing security and operability of the transmission system. Other agreements and indemnities may also be required to ensure that there are no adverse consequences for other users of the transmission system as a result of the User’s decision to “self-build”.

Subject to these arrangements, SPTL would adopt the self-build assets free of charge and assume responsibility for their ongoing maintenance.

Should a User wish to take advantage of the self-build option, this should be made clear in their formal application to NGET, and SPTL will work with the User to facilitate this option.

The scope of contestable works would be agreed before the application is deemed competent. Infrastructure works are non-contestable to avoid any potential impact on other customers.

SPT will charge the User on an indicative basis for any non contestable items such as design approval, inspection and testing of the contestable works to establish that the assets are suitable for adoption by SPT.

The TOCO would contain an estimated GAV for the new or replacement connection assets for charging purposes. The GAV would be estimated by SPT as though it was carrying out the full works.

#### **4.8 Civil Engineering Costs of Connection sites**

Where a substation site may accommodate infrastructure assets in one area of the building or outdoor compound, and sole-use connection assets for one or more Users in another area of the same substation site, the civil engineering costs including that share of the costs of preparing a level, drained site for the accommodation of the sole-use connection assets would be included in the connection costs.

### **5 INDICATIVE CHARGES**

Appendix D provides some indicative connection charges. Factors which can affect these charges are:

- Generation capacity characteristics;
- Exit point demand and characteristics;
- Special security of supply requirements – greater or less than SP Transmission licence standards;
- Availability of Consents and wayleaves for lines, cables and substations; and
- Circuit routing difficulties, substation site conditions and access to routes and sites.

## Appendix A – Fixed-price application fees for NGET Construction Applications for new connections

	<i>Type of connection</i>	<i>MW</i>	<i>Fee (£k)</i>
1	Directly connected generation Zone B	<300 =>300 and <1000 =>1000	21 42 63
2	Directly connected generation Zones C & D	<100 =>100 <300 =>300<500 =>500<1000 =>1000	21 31 52 84 104
3	Directly connected generation Zones E & F	<300 =>300 and <1000 =>1000	21 42 63
4	Embedded generation Zone B	=>30	6 *
5	Embedded generation Zones C & D	=> 30	10 *
6	Embedded generation Zones E & F	=> 30	6 *
7	New Grid Supply Point Zone B	any	5
8	New Grid Supply Point Zones C & D	<100 =>100	21 31
9	New Grid Supply Point Zone E	<100 =>100	13 25
10	New Grid Supply Point Zone F	<100 =>100	10 21

### Notes

\* A fee of one third of the Modification Application fee shown is required in respect of a request for a Statement of Works for Embedded Generation Connections. Should the Statement of Works show that Transmission Works are triggered by the connection, a Modification Application will be required, and the balance of the application fee will be payable.

It is also possible that a statement of works may need to be requested even where the proposed generator capacity is under 30MW

The MW value is the final value applied for.

No application fee is payable for TO initiated works.

## Appendix B – Fixed-prices for NGET Construction Applications for modified connections

	<i>Type of Connection</i>	<i>MW *</i>	<i>Fee (£k)</i>
1	Directly Connected Generation Zone B	<300 =>300 and <1000 =>1000	21 42 63
2	Directly Connected Generation Zones C & D	<100 =>100 <300 =>300<500 =>500<1000 =>1000	21 31 52 84 104
3	Directly Connected generation Zones E & F	<300 =>300 and <1000 =>1000	21 42 63
4	Embedded Generation Zone B	=>30	6*
5	Embedded Generation Zones C & D	=>30	10*
6	Embedded Generation Zones E & F	=>30	6*
7	Modifications to existing GSP Zones C&D	All	21
8	Modifications to alter connection commissioning dates	All	5

\* A fee of one third of the Modification Application fee shown is required in respect of a request for a Statement of Works for Embedded Generation Connections. Should the Statement of Works show that Transmission Works are triggered by the connection, a Modification Application will be required, and the balance of the application fee will be payable.

It is also possible that a statement of works may need to be requested even where the proposed generator capacity is under 30MW

MW value is the final value being applied for

Note that no application fee is payable for TO initiated works.

**Appendix C SPT Engineering Rates**

<b><i>Grade</i></b>	<b><i>Rate (£/day)</i></b>
Section Manager or Internal Solicitor	790
Principal PowerSystems Engineer	660
Senior PowerSystems Engineer, Project Manager or Senior Wayleave Officer	550
PS Engineer or Draughtsman	440
Graduate Engineer	370
Admin support	290

All fees are subject to the addition of VAT.

## Appendix D Indicative connection charges

The schedule below lists items of significant cost for which site-specific charges may be made for connection to SPT's transmission system:

<i>Description</i>	<i>£k</i>		
	<i>275kV</i>	<i>132kV</i>	<i>33kV</i>
	Charge	Charge	Charge
Single Busbar bay	870	530	-
Double Busbar bay	1032	620	-
Transformer cables, Per 100m (inc sealing ends)	-	260	150
275/132kV 240MVA transformer	2086	-	-
275/33kV 120MVA transformer	1827	-	-
132/33kV 90MVA transformer	-	779	-
132/33kV 30 MVA transformer	-	610	-

## Glossary of terms

<b>Abortive Works</b>	Works undertaken by SPT that are no longer required due to a required change to the specification of the transmission construction works .
<b>Authority</b>	The Gas and Electricity Markets Authority (Ofgem).
<b>Bilateral Connection Agreement</b>	An agreement between NGET and the User covering the connection to SPT's transmission system.
<b>Consents</b>	In relation to any transmission system and or connection works: - a) all such planning (including Public Inquiry) and other statutory consents; and b) all wayleaves, easements, rights over or interests in land or any other consent; or for commencement and carrying on of any activity proposed to be undertaken at or from such works when completed c) permission of any kind as shall be necessary for the construction of the works
<b>Construction Costs</b>	The costs, including overheads, of constructing the connection
<b>Construction Agreement</b>	An agreement entered into between the SO and TO pursuant to the Connection and Use of System Code
<b>CUSC</b>	Connection and Use of System Code
<b>NGET</b>	National Grid Electricity Transmission plc acting as the Great Britain System Operator
<b>Price Control</b>	As set out in SPT's licence.
<b>Pre-Vesting</b>	Means on or before 31 March 1990
<b>Post-Vesting</b>	Means after 31 March 1990
<b>SO</b>	System Operator
<b>STC</b>	The System Operator / Transmission Owner Code
<b>TO</b>	Transmission Owner
<b>TOT</b>	Allowed Transmission Owner Revenue - as set out in SPT's licence
<b>Termination Amount</b>	On termination, an amount to recover the Net Asset Value of the connection assets plus the cost of removing the

connection assets if required.

**User** A generation or demand customer connected to SPT's transmission system and party to NGET's bilateral agreement(s).