

Hannah Nixon
Senior Partner, Transmission
Ofgem
9 Millbank
London
SW1P 3GE

Anne Bennett
Charging & Revenue Manager

anne.bennett@uk.ngrid.com
Direct tel +44 (0)7767 298987

www.nationalgrid.com

1 November 2011

Dear Hannah

Notification to change transmission network use of system charges for 2012/13

Under the terms of National Grid's Electricity Transmission Licence, Condition C4 5(a) requires National Grid to give the Authority 150 days notice of any proposal to change the Transmission Network Use of System (TNUoS) charges. Without prejudice to any of the ongoing discussions between Ofgem and National Grid on charging related issues, this letter gives notice of our intention to change the following charges for the financial year 2012/13:

- TNUoS for generation and demand (kW) and energy consumption (kWh);
- Application Fees for Connection and Use of System; and
- Charge-Out Rates for Variable Price Applications.

TNUoS for generation and demand and energy consumption

The Section 14 of the Connection and Use of System Code (CUSC) outlines the principles and methodology upon which National Grid recovers the allowed revenue via the application of a tariff for TNUoS charges. National Grid intends to amend the TNUoS tariffs with effect from 1 April 2012 for the financial year 2012/13.

The level of TNUoS charges are driven by changes to data used for charge setting and the underlying methodology used to determine charges and, where relevant, National Grid's electricity transmission licence.

Changes to charge setting data

The factors that affect the level of TNUoS charges from year to year include:

- the revenue collectable through TNUoS charges, which is determined by reference to the allowed revenue defined in Special Condition D2;
- the expansion constant, which shall be updated once the November value of RPI has been published;

- ❑ the revenue that is expected to be collected through local TNUoS tariffs and, in particular, with respect to offshore networks;
- ❑ changes in the transmission network;
- ❑ the forecast level of peak demand on the transmission system; and
- ❑ changes in the pattern of generation capacity and demand.

The allowed revenue referred to above includes revenues that National Grid collects on behalf of onshore and offshore transmission owners. To facilitate accurate charge setting, the SO-TO Code (STC) includes provisions for an information exchange for existing transmission owners. This is designed to ensure that accurate information is provided by (OF)TOs in time for publication of final tariffs for transmission users. However, where new OFTOs are expected to be appointed and the associated tender process has not concluded, National Grid forecasts OFTO revenues.

Changes to the Use of System Charging Methodology

Whilst there are currently no outstanding methodology changes that are being progressed through industry governance, National Grid is considering a methodology change to cover rare instances where capital contributions are made by users for transmission assets that covered within the TNUoS charging arrangements. This is at the early stage of development but preliminary discussions have been had with Ofgem.

National Grid also notes that Project TransmiT is ongoing. Whilst tariffs for 1 April 2012 will be based on the current charging methodology, there is a potential for the outcomes of Project TransmiT to be fully implemented during 2012/13 and further tariff changes would then be required. Against this background, we also note that the implementation timescales for any changes will be considered by the industry as part of a CUSC amendment raised through the Significant Code Review (SCR) process.

In addition, there is a possibility that TNUoS tariffs for April 2012 could be affected by the implementation of any further Charging Methodology proposals, BSC or CUSC amendments raised following the submission of this notification, if implemented before April 2012. In particular, we are maintaining a watching brief on Europe to ensure that any developments here can be appropriately included within TNUoS charging arrangements where necessary.

Application Fees for Connection and Use of System

The Statement of Use of System Charges details the application fees for connection and use of system. National Grid will review the rates for variable price applications incorporating updated staff costs, inflation and other costs.

Charge-Out Rates for Variable Price Applications

The Statement of Use of System Charges also details the charge-out rates for engineering charges used in the cost assessment of variable price application for connection and use of

system. The fees are currently being reviewed incorporating updated staff costs, inflation and appropriate resource categorisation.

It is our current intention to publish the revised Statement of Use of System Charges containing revised charges on or before 1 February 2011 in line with our CUSC obligations.

If you have any questions on any of the above please do not hesitate to contact Adam Brown (01926 655839) or myself.

Yours sincerely

Anne Bennett
Charging and Revenue Manager