

**Statement of the Basis of
Offshore Transmission Owner Charges**

TC Gunfleet Sands OFTO Ltd

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STATEMENT OF TC GUNFLEET SANDS OFTO LIMITED BASIS OF TRANSMISSION OWNER CHARGES

This statement is produced by TC Gunfleet Sands OFTO Limited, the Offshore Transmission Owner (OFTO), which sets out the basis of charges for the provision by the OFTO to National Grid Electricity Transmission plc (NGET) (the National Electricity Transmission System Operator, NETSO) of transmission services specified in the transmission licence and System Operator - Transmission Owner Code (STC). This Statement is effective from 19 July 2011.

The charges shall consist of TO General System Charges, TO Site Specific Charges, OFTO of Last Resort Charges and Other Charges as set out in this statement.

1. Introduction

TC Gunfleet Sands OFTO Ltd (“the OFTO”) is obliged, under Amended Standard Condition E12-J9 of its offshore electricity transmission licence (the “Licence”) to prepare a statement approved by the Authority setting out the basis upon which charges will be made for the provision of transmission services and for connection to the OFTO’s system in such form and detail as shall be necessary to enable NGET to make a reasonable estimate of the charges it will pay for the OFTO’s services.

The requirements of Amended Standard Condition E12-J9 are set out below (note that in this extract the OFTO is referred to as the “licensee”):

1. The licensee shall as soon as practicable during the commencement relevant year and, in any event, not later than such date as the Authority shall specify prepare a statement approved by the Authority setting out the basis upon which charges will be made:

(a) for transmission owner services;

(b) for connection to the licensee’s transmission system, such statement to be in such form and to contain such detail as shall be necessary to enable the System Operator to make a reasonable estimate of the charges to which it would become liable for the provision of such services, and (without prejudice to the foregoing) including such of the information set out in paragraph 2 as is required by such paragraph to be included in the relevant statement; and

(c) for outage charges.

2. The statement referred to in paragraph 1 shall in respect of connections to the licensee’s transmission system include:

(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.

In addition it is noted within Amended Standard Condition E12-J9 that:

- The OFTO may periodically revise this statement, and shall at least once in every year this licence is in force make any necessary revisions to this statement in order that the information set out in the statement shall continue to be accurate in all material respects. (As required by clause 5 of Amended Standard Condition E12-J9)
- The OFTO shall send a copy of this statement and each revision of this statement to the Authority. Each such revision shall require to be approved by the Authority and shall not become effective until approved by the Authority. (As required by clause 6 of Amended Standard Condition E12-J9)
- The OFTO shall give or send a copy of this statement to any person who requests a copy. The OFTO may make a charge for any statement of an amount reflecting the OFTO's reasonable costs of providing such a statement which shall not exceed the maximum amount specified in directions issued by the Authority for the purposes of this condition. (As required by clauses 7 and 8 of Amended Standard Condition E12-J9)

2. Principles

This statement sets out the basis on which charges will be levied by TC Gunfleet Sands OFTO Ltd (“the OFTO”) for the provision of transmission services to National Grid Electricity Transmission plc (NGET), the latter acting in its role as National Electricity Transmission System Operator (NETSO).

All OFTO assets are charged to NETSO in accordance with the Licence which specifies a 20 year revenue entitlement based on a tendered revenue stream.

The STC describes the following charges that may be levied on NETSO by an OFTO:

- i) TO General System Charges
- ii) TO Site Specific Charges
- iii) Other Charges
- iv) OFTO of Last Resort Charges

This document describes the methodology for the calculation of these charges.

3. TO General System Charge

The TO General System Charge to be levied by the OFTO on NGET in any year is equal to the Offshore Transmission Owner Allowed Revenue ($OFTO_t$) for that year.

The formulae for the calculation of $OFTO_t$ are set out in the Licence of the OFTO. Initial values for the input parameters required to calculate charges for the 2010/11 financial year (year $t=1$) are as specified in Appendix 1.

In the event of additional capacity being required from the OFTO the value of $OFTO_t$ will be adjusted in accordance with the formulae set out in the Licence (amended standard condition E12-J4 (Restriction of transmission revenue: Annual revenue adjustments) and standard condition E17 (Obligations in relation to offers for connection etc)).

4. TO Site Specific Charges

The TO Site Specific Charge is zero.

(TO Site Specific Charges relate to costs associated with connections that aren't recovered as TO General System Charges or Other Charges. For the OFTO the majority of the cost associated with connections would be recovered through the TO General System Charge, with some related charges recovered as Other Charges. Hence the OFTO is unlikely to invoice NGET for TO Site Specific Charges.)

5. OFTO of Last Resort Charges

OFTO of Last Resort Charges would be applied in the event of the OFTO undertaking the OFTO of last resort role under Standard Condition E21 (Offshore Transmission Owner of Last Resort). These charges would be as set out and specified in a direction issued by the authority to the OFTO in accordance with standard condition E21.

6. Other Charges

The Other Charges to be levied by the OFTO on NGET in any year are to equal to the sum of the charges listed below in this Section 6 and any Interruption Charges (as defined in the STC) charged by NGET to the OFTO.

a. Application Fees

The OFTO will charge NGET an application deposit set out in Appendix 2 at the time of each application for a new or modified connection to the OFTO's transmission system. This deposit is intended to cover costs and other expenses involved in preparing an offer of terms.

The OFTO will carry out a reconciliation once the actual costs and other expenses have been established. Actual costs will be based on the OFTO market based charge-out rates detailed in Appendix 3 and any external costs incurred (for instance travel & subsistence costs associated with site visits or the cost of using specialist consultants to undertake system simulation studies). Where actual costs exceed the application deposit, the OFTO will issue an invoice for the excess. Conversely, where the OFTO does not use the whole of the application deposit, the balance will be refunded.

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

In exceptional circumstances where NGET has requested an application which involves significant costs over and above those that would be normally expected (e.g. substantial system studies, specialist surveys, investigations) to process an offer of terms then the OFTO reserves the right to vary the applicable deposit.

If, following completion of the works to which the application related, the incremental capacity incentive adjustment term (ICA_i) in amended standard condition E12 - J4 (Restriction of transmission revenue: annual revenue adjustments) is adjusted so that the cost of the application is recovered through the TO General System Charge, then the application fee will be refunded to NGET.

b. Feasibility Study Fees

If NGET requests a feasibility study in connection with alterations to or extension of the OFTO network an initial fee will be payable based on an advance of OFTO engineering and out-of pocket expenses.

The advance fee payable by NGET will vary according to the size of the study and the amount of work expected. Actual costs will be based on the OFTO charge-out rates detailed in Appendix 3 and any external costs incurred (for instance travel & subsistence costs associated with site visits or the cost of using specialist consultants to undertake system simulation studies). Where actual engineering and out-of pocket expenses exceed the initial fee, the OFTO will issue an invoice for the excess. Conversely, where the OFTO does not use the whole of the initial fee, the balance will be refunded.

c. De-Energisation and Disconnection Charges

Where NGET wishes a supply to be permanently de-energised, a minimum of two business days notice (or such other period as may be specified in the TO Construction Agreement and/or STC) to that effect should be given to the OFTO. The OFTO will arrange to de-energise the supply. An additional charge will be made for this service if undertaken outside normal working hours in order to recover any additional costs for call-out or out-of-hours working.

Temporary de-energisation (and subsequent re-energisation) resulting from the failure by NGET to comply with the terms of their relevant agreement, or carried out at the request of NGET will be at the expense of NGET. Where this disconnection requires the OFTO's assets to be removed from the User's site the cost of these assets, their removal and (if applicable) subsequent reinstatement will become due from NGET forthwith.

If NGET requests disconnection, this must be requested in writing.

d. Charges for Outage Changes

Where prearranged outages are rearranged at NGET's request or where NGET require additional services for planned or unplanned outages over and above the normal service provided under the OFTO's Operations and Maintenance agreement (relevant details of which will be disclosed to NGET on request), an additional charge will be made.

This charge will be determined in accordance with STCP 11-3 "TO Outage Change Costing" and will be based on the rates set out in Appendix 3.

Additional costs that may be included in this charge include, but are not limited to:

- Demobilisation and remobilisation costs.
- Costs (including where appropriate, liquidated damages) of standing down contractors until outage starts. Costs will be derived from contractors' invoices and, in the case of liquidated damages, from the relevant agreement(s).

- Costs of overtime working to reduce outage time such as to reduce NGET's costs in maintaining system security. Cost will be based on overtime hours worked on the particular outage.
- Additional waiting on weather costs for carrying out work at different times of year.
- Costs of installing additional equipment, such as bypass arrangements.
- Revenue deductions (or increases) through the incentive mechanism that the OFTO may be subject to as a result of the Outage Changes.

Where an outage is rearranged at NGET's request, the OFTO will use all reasonable endeavours to minimise the charge to NGET.

e. Miscellaneous

If NGET request any other work by the OFTO not covered by General System Charge, Site Specific Charges or the other charges specified above, the OFTO will provide terms for the requested work.

7. Contacts

Any questions in relation to this Statement of Charges should be directed in the first instance to one of the names given below:

Chris Veal Transmission Capital Services Chris.veal@transmissioncapital.com +44 20 3178 7996	Sean Kelly Transmission Capital Services Sean.kelly@transmissioncapital.com +44 20 3178 7997
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Appendix 1 – Initial values of charging parameters

The parameters outlined in the table below are set out in the amended standard conditions of the Licence, specifically in:

- E12 - J1 (Restriction of Transmission Revenue: Definitions)
- E12 - J2 (Restriction of Transmission Revenue: revenue from transmission owner services)
- E12 - J3 (Restriction of transmission revenue: Allowed
- pass-through items); and
- E12 - J4 (Restriction of transmission revenue: Annual revenue adjustments).

Parameter	Estimated Initial Value
Tender Relevant Year	Financial year ending 31 st March 2012 (this is t=1)
Commencement Relevant Year	Financial year ending 31 st March 2012 (this is t=1)
TRSt (tender revenue stream term)	£6,106,000
MRA _t (market rate revenue adjustment term)	The MRA figure is an output of the financial close process, and will depend on market rates on the date of closing.
PR _t (portion of year covered by licence)	Licence grant date: 19th July 2011 Start of commencement relevant yr: 1 Apr 2011 No of days from start of commencement relevant year to licence grant: 109 $PR_1 = 1 - (109/365.25)$ $PR_1 = 0.7016$ $PR_t = 1$ for $t > 1$
RIT _t (RPI indexation term)	$RIT_1 = 1$ (since t=1 is tender relevant year) $RIT_2 = (1 + RPI_2) * RIT_1$ Where RPI_2 is the percentage change between: <ol style="list-style-type: none"> The average value of the retail price index from January 2010 to December 2010 inclusive ("relevant year t-2"), and The average value of the retail price index from January 2011 to December 2011 inclusive ("relevant year t-1") For the avoidance of doubt: <ul style="list-style-type: none"> • RIT_1 applies to charges in the year from 1 April 2011 to 31 March 2012. • RIT_2 applies to charges in the year from 1 April 2012 to 31 March 2013.

LFt (licence fee cost adjustment term)	$LF_1 = 0$ (Zero licence fees to Transmission Owners in most circumstances; see clause 3.4 of Ofgem document “Offshore Transmission Tender Guidance Note: Generic Offshore Transmission Owner (OFTO) Licence (3 September 2010)”).
RBt (business rates)	$RB_1 = £330,000 * 0.433 * PR_1$ As provided by Valuation Office 17 August 2010
CELt (crown estate lease)	$CEL_1 = £28,500$ (negotiation cost pass through) $CEL_t = £1$ for $t > 1$
DCt (decommissioning cost adjustment)	$DC_1 = 0$
IATt (income adjusting event)	$IAT_1 = 0$
TPDt (temporary physical disconnection)	$TPD_1 = 0$
TCA _t (tender fee cost adjustment)	$TCA_1 = £700,722$ Comprising: 1/9 th of PQ Payment of £5k 1/9 th of £50k ITT Payment £250k PB Payment £350k Successful Bidder Payment £94,611 Cost Assessment Payment (figure provided by Ofgem 1 July 2011)
MCA _t (adjustment term for Marine and Coastal Act 2009)	$MCA_1 = 0$
K _t (correction factor)	$K_1 = 0$

Invoicing: tender fees (TCA_1) and the crown estate lease negotiation cost pass through (CEL_1) will be invoiced as a one-off payment within the first invoice in accordance with paragraph 4.3.2 of section E of the STC, to match the costs as they are incurred.

VAT: all of the above figures exclude VAT

Appendix 2 – Application deposits

Connection or modification size	Application deposit
0-10MW	£60k
10-100MW	£120k
>100MW	To be determined separately at the time

All deposits are subject to the addition of VAT.

Appendix 3 – Charge out rates

Grade	Rate (£/day)
Senior manager or Internal Solicitor	1275
Principal Engineer	1050
Admin support	550
External Charges	Cost + 6%

All fees are subject to the addition of VAT