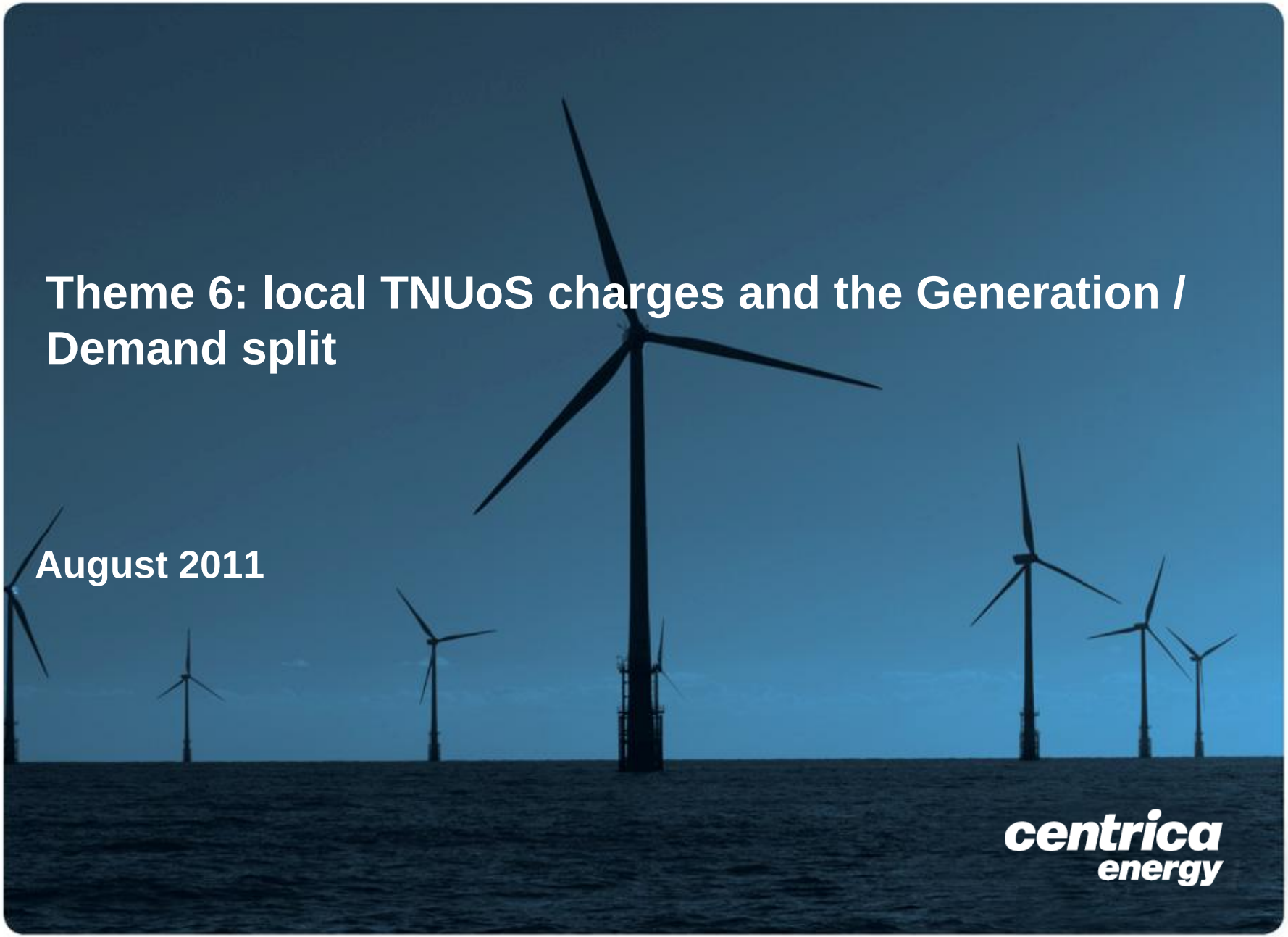

Theme 6: local TNUoS charges and the Generation / Demand split

August 2011

centrica energy

TNUoS Charging Post OFTO

- National Grid's target revenue (TNUoS) recovery will increase to include the OFTO revenue streams.
- Demand recovers 73% of the new local OFTO costs but in parallel, the majority of the offshore transmission costs are targeted at offshore generators in their Local tariff (circuit and substation tariffs) .
- The total amount recovered from all generators cannot exceed the 27%.
- Hence, if offshore generators are paying large local charges, the residual element has to be reduced to maintain the overall 27% split.
- In practice, demand has paid for 73% of the OFTO costs and offshore generators have also paid for majority of OFTO costs. The correction is delivered by reducing onshore generator charges.

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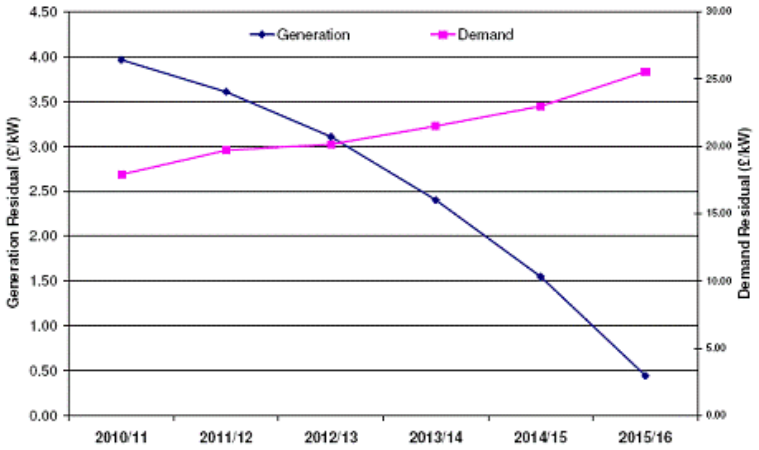
Perceived issue of local charges and the falling residual

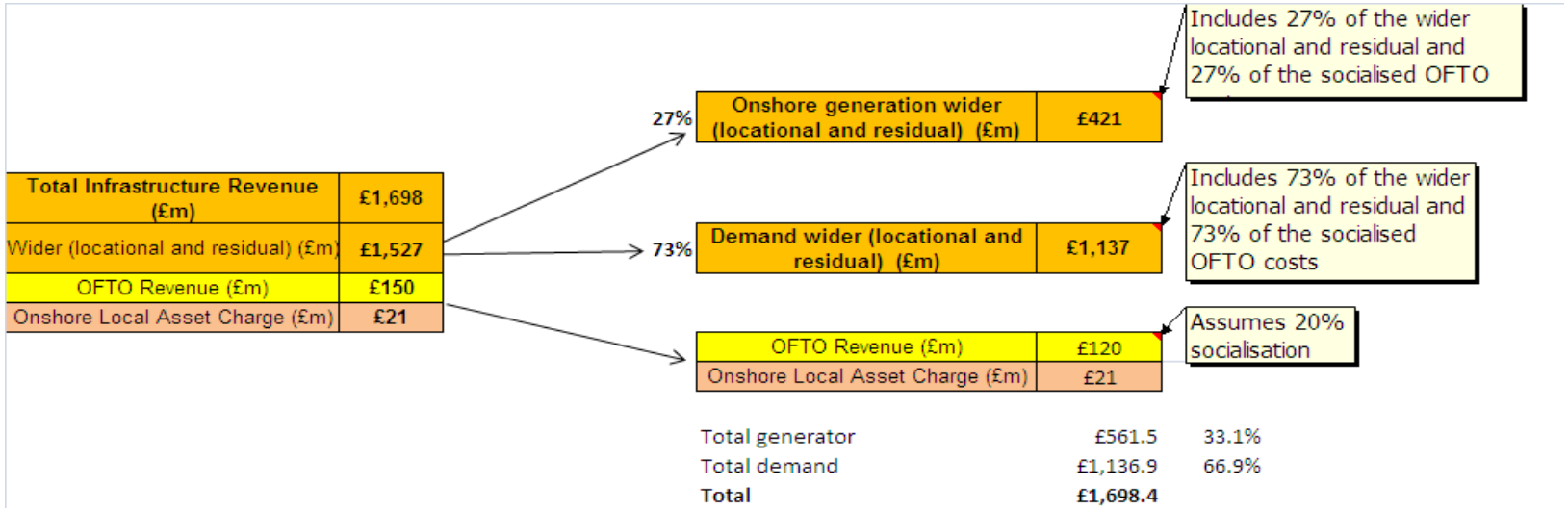
- In Work Group 4 R-UK presented their understanding of the issue
- Centrica agrees there is an issue, but views the problem differently
- The inclusion of the local costs (especially the OFTO costs) in the 27:73 split:
  - **Significantly** decreases the predictability of tariffs
  - Creates a falling residual which is an **unintended consequence** and is **incongruous** from a presentational point of view
  - Represents a **windfall gain** to generators



Source: National Grid 5 year forecast of Transmission Network Use of System tariffs

Solution 1: local charges removed from 27%:73% split

- Solution 1 in R-UK's paper
- The only solution that doesn't reverse the problem by reducing offshore tariffs
- G:D split would remain - just for non-local assets
- Socialised element of OFTO remains in onshore G:D pot
- Prevents G residual tariff from decreasing
- D no longer recovers OFTO and local onshore costs
- However, generation community pays >27% when offshore generation included



Solution 1a - local charges removed from split then alter 27:73

- **Same principle as solution 1 but reduces the proportion G pays onshore**
- **The proportion that G pays onshore would need to be reviewed periodically**
- **This solution:**
  - a) Prevents the windfall gains
  - b) Prevents the onshore residual from falling
  - c) Improve parties' ability to forecast tariffs
  - d) Overcomes, at least in the medium term, the issue of the generator community paying >27%