

2011/12 TNUoS Charge Setting

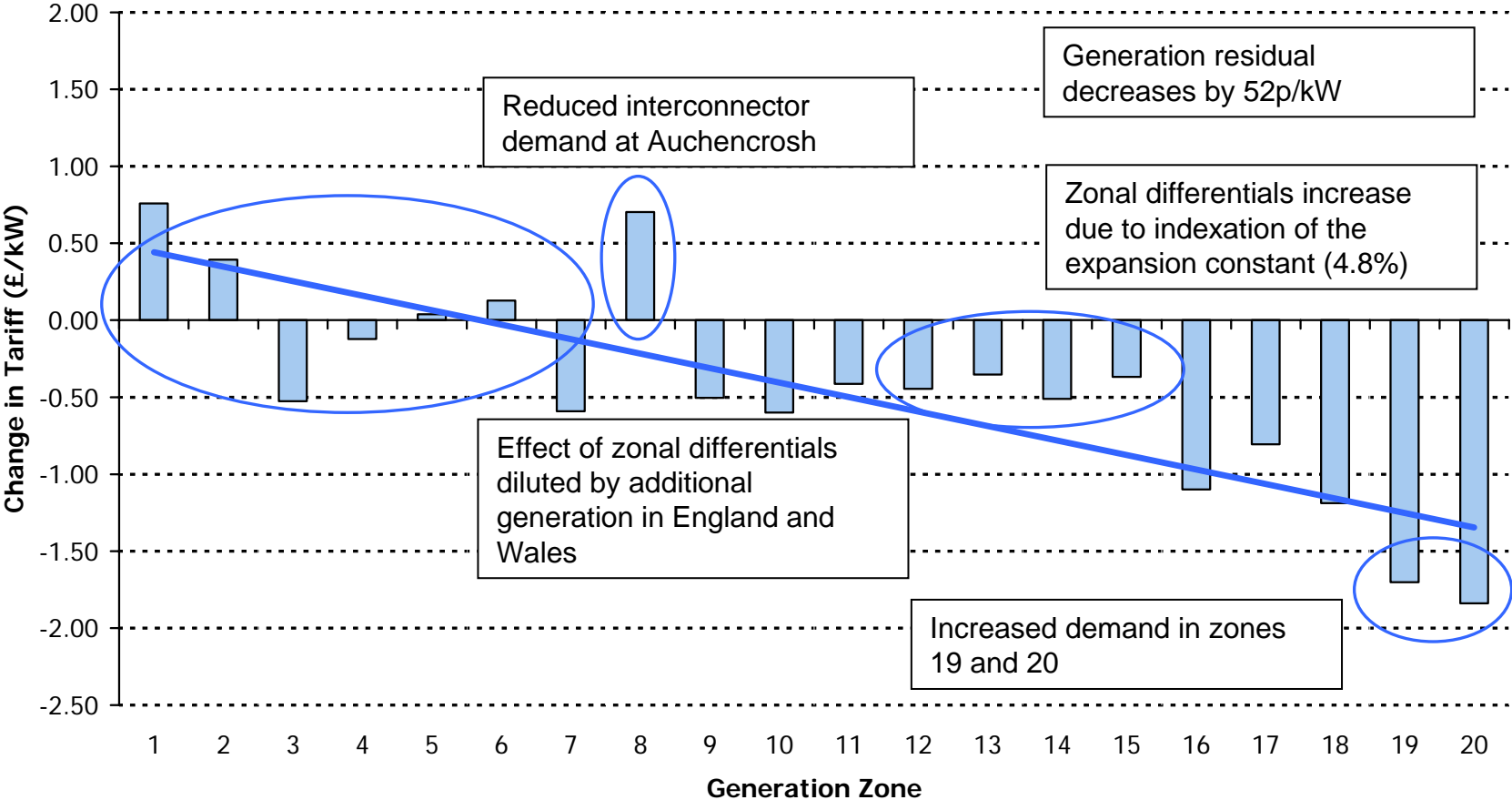
Wayne Mullins – 26th January 2011

Draft Tariffs

- Published 23rd December
- Allowed Revenue of £1,726m
- No inclusion of TO Investment Incentives
- Initial view of OFTO revenues and Offshore Local charges
- Assumed small generators' discount retained
- National Grid's best view of demand and generation bases and 2010-11 revenues at the time

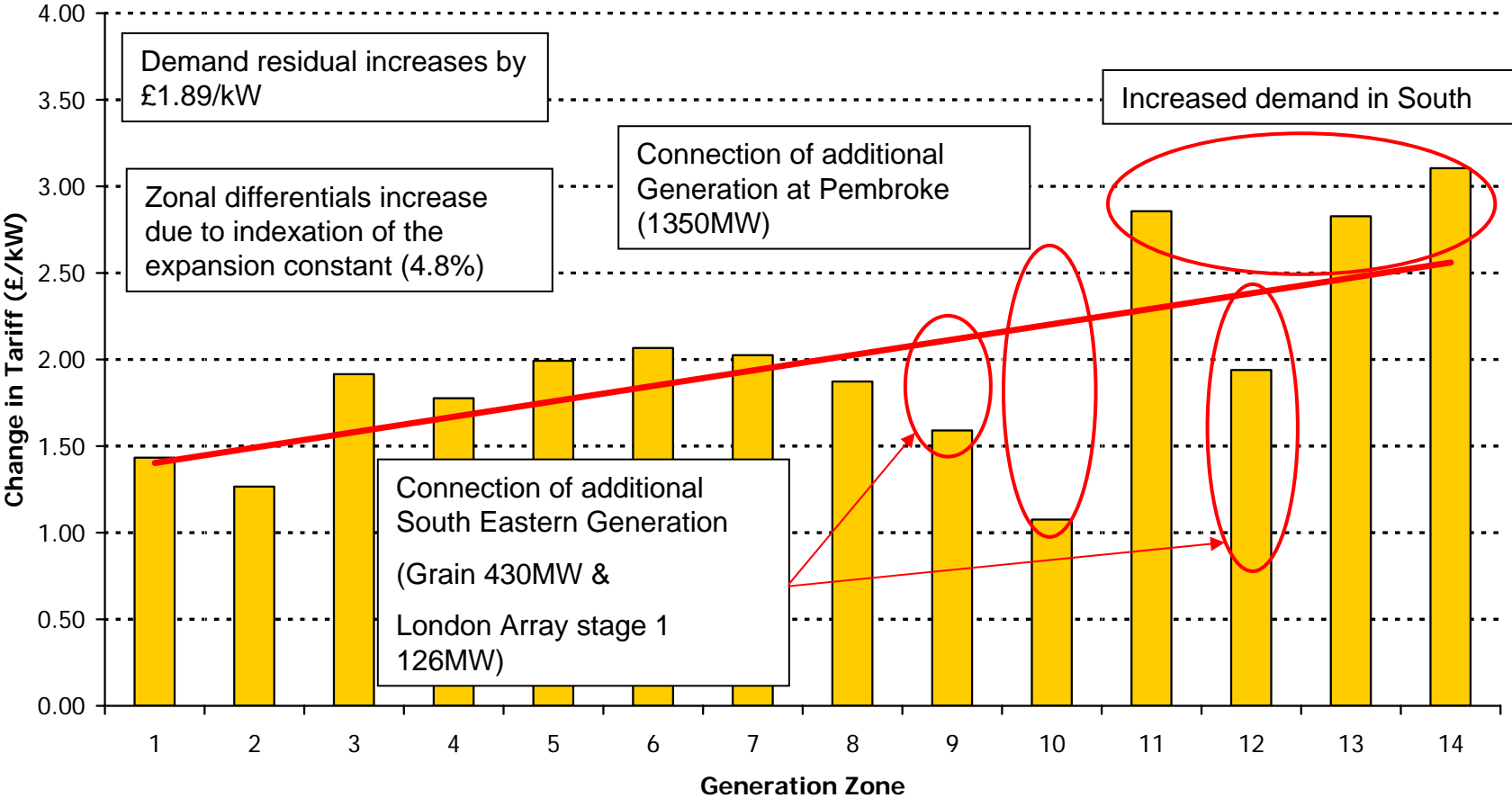
Changes in Wider Zonal Generation Tariffs

**Year on Year Comparison of Generation Tariffs
(2011-12 Drafts vs. 2010-11 Effective tariffs)**



Changes in Zonal Demand Tariffs

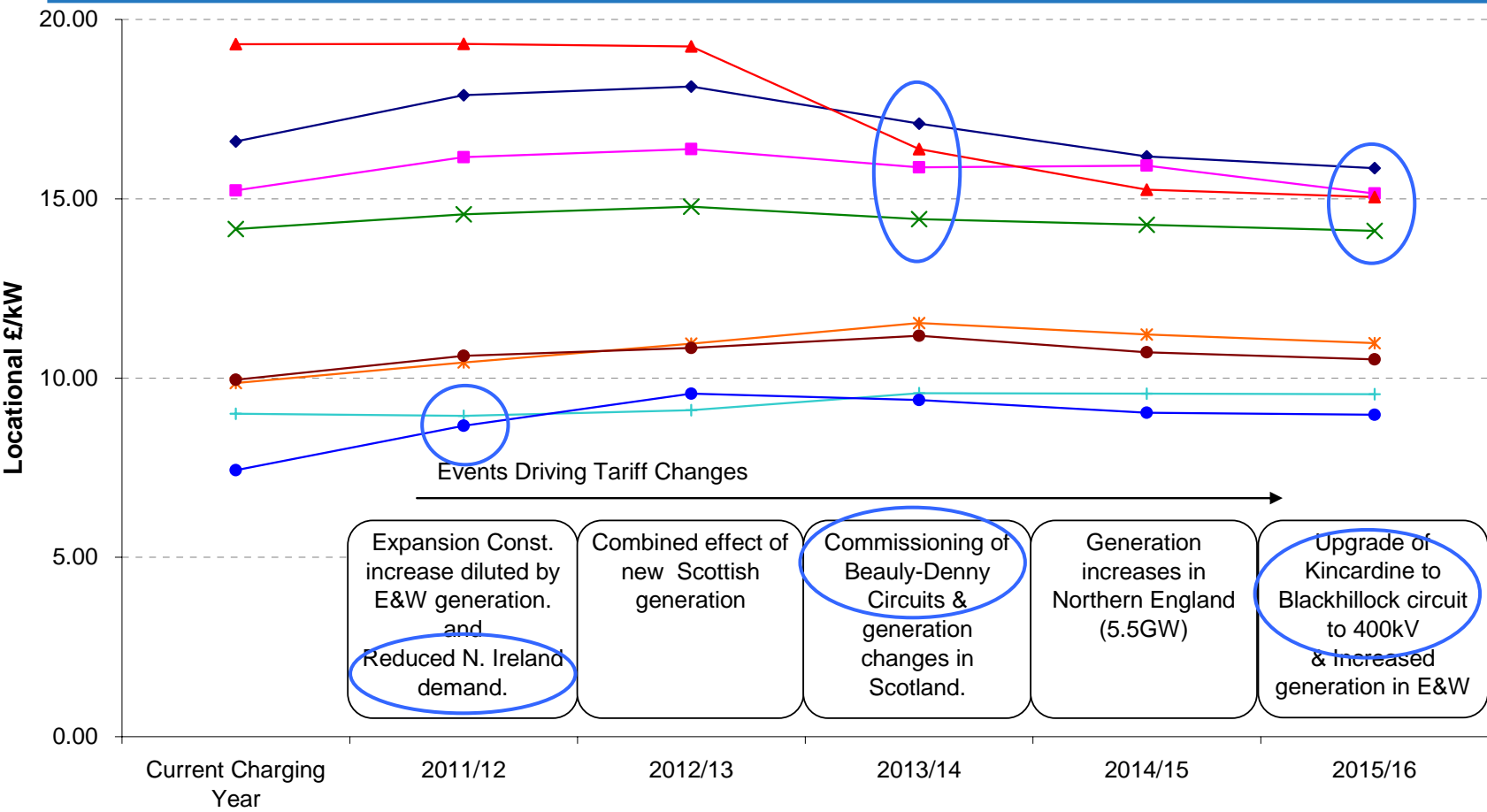
**Year on Year Comparison of HH Demand Tariffs
(2011-12 Drafts vs. 2010-11 Effective tariffs)**



Five year forecast of tariffs

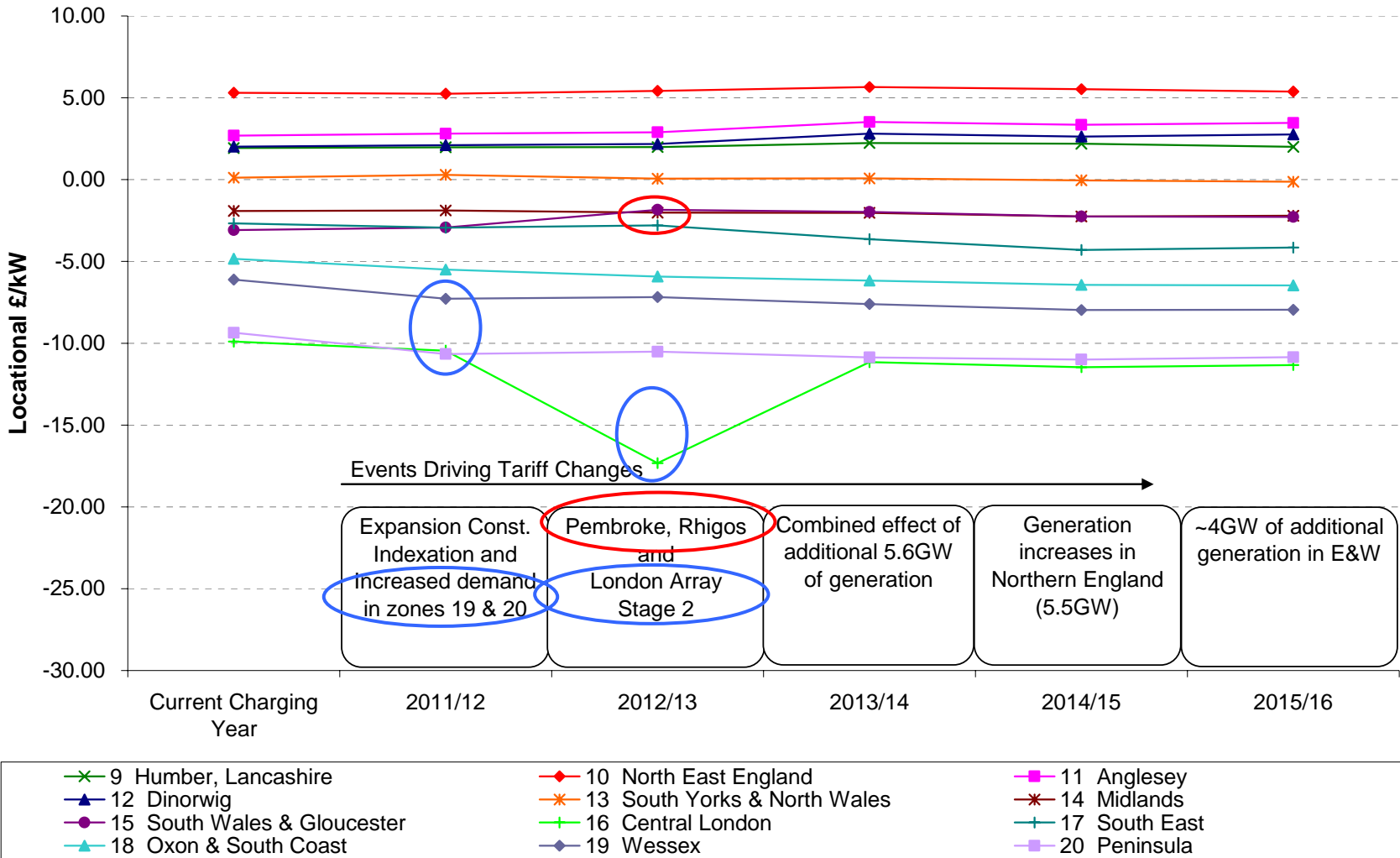
- Based upon Seven Year Statement data set for 2011-12 to 2015-16 (October 2010 update).
- Consideration of:
 - Transport model changes on wider zonal tariffs;
 - Transport model changes on local circuit tariffs;
 - The effect of RPI on local substation tariffs; and
 - How certain events will effect the residual tariff elements.

Five year forecast of wider locational generation tariffs (1)

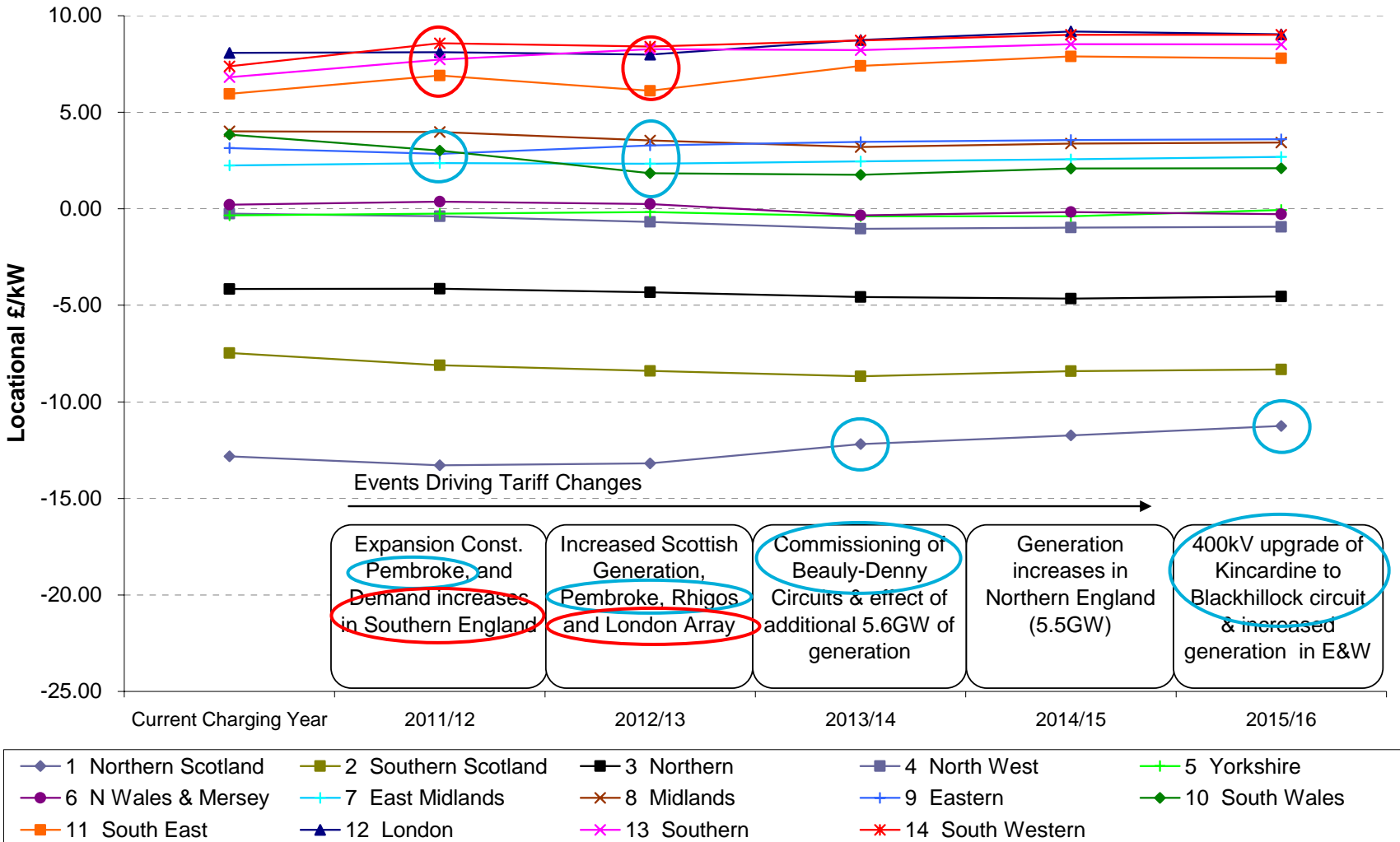


- ◆ 1 North Scotland
- ◆ 2 Peterhead
- ◆ 3 Western Highland & Skye
- ◆ 4 Central Highlands
- ◆ 5 Argyll
- ◆ 6 Stirlingshire
- ◆ 7 South Scotland
- ◆ 8 Auchencrosh

Five year forecast of wider locational generation tariffs (2)



Five year forecast of locational demand tariffs



Information about charges

- Customers have sought more information about tariffs & revenues

- Final tariffs and the Condition 5 Report will include information on
 - charge setting revenues
 - high-level offshore assumptions
 - forward looking information
 - transmission revenues
 - framework / price control uncertainties
 - charging methodology 'events' that will affect charges

- Some offshore information still confidential and this restricts National Grid from doing everything that we would like to

Work to avoid a mid-year tariff change in 2011/12

- In 2010/11 tariffs were updated mid-year for the first time
- Some concerns raised by sections of the industry
- National Grid shares industry concerns regarding the potential negative impact of repeated mid-year tariff changes
- Work progressing in several areas to avoid this in the future
 - working with Ofgem to
 - improve interaction between the tender process and charge setting
 - secure the information needed to set tariffs
 - reviewing the provisions that allow TOs to make mid-year changes
 - using experience of 10/11 to better forecast offshore costs

How is 2011/12 different?

- We start 2011/12 in a better position compared to 2010/11
 - no general election risk (a significant factor in 10/11)
 - commencement / go-live arrangements are established
 - experience from 10/11 gives us better knowledge of
 - costs incurred by OFTOs to purchase offshore assets
 - the process and time-lines to asset transfer
- fewer new projects to assess underlying costs and revenues
 - preferred bidders for 8 / 11 projects have been appointed
 - of these, 5 are well advanced towards asset transfer

} OFTO
revenues



**Do not expect a mid-year tariff change during 2011/12
as a result of changes to offshore revenue requirements**

What next...

- Publish final tariffs and Condition 5 Report next Monday
- Continue work with Ofgem and TOs
- Industry engagement through TCMF / Customer Seminars
- As always, we welcome your views and feedback

Forecast Local Tariffs - Islands

- Annuity factor 6.6%
(assuming 50 year life & 6.25% return)
- Overhead factor 1.8%
- 2011/12 Exp. Const. = £11.14/MWkm

Isle of Lewis

- Cable cost £364m and rating 450MW (SHETL presentation September 2010)
- Circuit Length 156km
- Expansion factor of 40.96
- £71.20/kW

Shetland Islands

- Cable cost £547m and rating 600MW (SHETL presentation December 2009)
- Circuit Length 320km
- Expansion factor of 22.22
- £79.24/kW

