

Responses to GB ECM-24

Consultation on Modification Proposal to the
Transmission Network Use of System Charging
Methodology to Update Charging Arrangements
Associated with Offshore Transmission Networks

Closing date: 14th May 2010

Ivo Spreeuwenberg
Electricity Charging & Access Development
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14 May 2010

Dear Ivo,

RE: National Grid's Consultation on update charging arrangements associated with Offshore Transmission Networks

Many thanks for the opportunity to respond to your proposals on offshore charging.

As you may know, Centrica has a number of key interests in offshore wind. Our 90MW Barrow project is currently going through Ofgem's first transitional tender process. We have three Round 2 projects either proposed or under development in the Greater Wash – Lincs, Docking Shoal and Race Bank and we have been awarded development rights for the Irish Sea Round 3 area.

Our comments on your proposals are informed from our experience in developing and financing these projects. It is worth noting that we do also have extensive onshore generation interests – thermal power in England and onshore wind in Scotland. Our overall commercial approach therefore has an in-built balance across a range of interests.

Whilst some of these proposals represent logical clarifications to the offshore local charging methodology, we believe that the proposed change to the calculation of the offshore substation tariff represents a significant departure from the current methodology and would have a considerable impact on the local offshore TNUoS charge. We note that very little discussion in industry meetings has taken place regarding this change and as such it is likely that many companies are unaware of the significance of this change and how it would impact investment decisions that have already been made. It is for this reason that we cannot support this proposal at the given time and would ask National Grid to undertake a more detailed consultation on this separately and discuss it in more detail in the relevant industry fora.

We provide our response on each of your proposals in turn below:

Treatment of IDC and project development overheads

Centrica accepts the need to update cost categories as National Grid (NG) gathers more information. The proposal to allocate IDC and project overheads to the overall cost of the offshore assets appears pragmatic. If project developers wish to make a case for an alternative allocation –for instance, if there is some rationalisation of costs across more than one project – then we would ask that NG retain this flexibility.

Treatment of costs classified as ‘other’ by developers of transitional projects

Our comments are the same as for treatment of IDC and development overheads. We note the intention to allocate costs that are rightfully part of the asset cost base. It is important though to allow project developers put forward shared costs in a different category if the expenditure has benefited other users.

Centrica would also note that transitional projects have been following National Grid’s and Ofgem’s cost categories, as requested. i.e. the use of ‘other’ as a cost category is probably because a suitable alternative was not there. If you wish to engage with us on suitable alternatives please do so.

Inclusion of HVDC converter stations into methodology text

Centrica has no comments on this and we note it is simply incorporating what we already understood to be policy.

Platform rating for calculation of offshore substation local tariff

This is the most substantive of your proposals and represents a major change from your original GB ECM-08 proposals.

The immediate impacts on some of our projects are substantive, and by design can only be negative to project economics. National Grid’s illustrative example shows the impact being a 14% increase to the offshore local tariff. However, we believe that this figure could be significantly higher for some individual projects and would have a large economic impact on these projects.

Our choices for equipment ratings on Barrow, for example, were made a long time ago based on the most economic options available at the time, and to alter assumptions on charging for those assets substantively at this stage has a very significant effect on the economics of some of our projects.

Furthermore, for future projects we would note that off-the-shelf items of equipment offer limited choice and hence limited opportunity to respond to a rating-based cost signal for substation equipment. Bespoke items may offer more flexibility but are also more expensive.

There has been very little discussion of this proposal and the intent appears to be to move swiftly to implementation. As such we are unable to support this change at this given time. This is wholly unacceptable for such a material change in policy, and we would request strongly that further time is taken to debate this proposed change and examine the rationale behind it, especially the impact on this change on both offshore and onshore TNUoS tariffs. We believe this to be especially important in the light of the large potential impact of Round 3 projects. We would also note that reduction in the level of socialisation of the offshore substation tariff would not have any impact of demand tariffs which will continue to pick up 73% of the total OFTO revenue. Hence, from this point of view the proposals do not alter consumers' exposure to OFTO revenues.

Treatment of asset spares

Centrica agrees with NG's proposals for cost allocation on existing projects where asset spares are kept specifically for the offshore wind project.

More generally, holding of asset spares is a choice that reflects the asset maintenance and operational policy of the asset owner and operator. Centrica would expect this policy to be scrutinised as part of any OFTO appointment. We would expect asset availability to be maximised and for the OFTO to put forward experience-based proposals to achieve this. The regime for maintaining availability will include a policy on asset spares and it may well be that an OFTO could keep spares to cover more than one project. It is difficult to comment on this any further in advance of scrutiny of OFTO proposals.

Treatment of harmonic filtering equipment

Centrica concurs with the proposal to allocate harmonic filtering equipment associated with the project, to the project.

Pass through of historic DNO capital contributions

Centrica concurs with the proposal.

ETUoS for single DNO charge relating to multiple generators

Again we feel that the proposals are a pragmatic adjustment to the circumstances.

I hope these comments have been useful. If you want to discuss any element of this response, please do not hesitate to contact me on 07789 579169 or at Ricky.Hill@centrica.com.

Yours sincerely,

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14 May 2010

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Dear Ivo

**DONG Energy Response to NGET Pre-Consultation GB ECM-24:
Update to Charging Arrangements Associated with Offshore Transmission**

Thank you for this opportunity to comment on this consultation. This response is made by DONG Wind (UK) Ltd on behalf of its affiliated generator companies operating or under development in the British electricity market.

Whilst we welcome the clarification of certain aspects of your methodology for deriving the local tariff elements for offshore generators, we note that some changes are significant changes and that these are being made at a very late stage, ie within just a few weeks of the expected date of implementation of the new offshore regime. Furthermore, it would have been helpful if the report contained a more detailed justification of the changes and in particular how they better meet the applicable objectives.

Turning to the specific proposals we have the following comments:

Methodology Clarifications

i) Treatment of IDC and Project Development Overheads

We agree with apportionment of development overheads as you suggest, particularly in respect of those classed as "Other". However DONG Energy remains of the view that the IDC element should be fully socialised as it is a cost which, onshore, is treated this way. We note that NGET argue that the cost of IDC is implicit in the rate of return earned by the onshore TOs, however this does not seem correct since the return is determined through a complex process at each review period driven primarily by the companies WACC. It is not related to their investment profile and this means that IDC is not allocated to specific assets in the way that NGET proposes offshore.

Therefore DONG Energy disagrees with this part of the proposal on the grounds that it is discriminatory against offshore users in a way that is unrelated to differences in the costs of providing the service. We also believe that by distorting the arrangements between offshore and onshore generation it fails to meet the objective of facilitating effective competition in generation and supply.

ii) Treatment of costs classified as ‘Other’ by developers of transitional projects

We agree with the proposed clarification on the treatment of “other” costs.

iii) Inclusion of HVDC Converter Stations into Methodology Text

We agree with the proposed clarification on the treatment of HVDC.

Modifications

i) Platform Rating for Calculation of Offshore Substation Local Tariff

This is the single most concerning item in this consultation, as NGET is proposing at this very late stage to base the platform rating on the lower of the switchgear and transformer rating. This is a retrospective change to the cost treatment of a major item occurring after DONG Energy and other developers have decided on the split of assets which are to be transferred to the OFTO. Furthermore we do not think that NGET should be basing its proposal on a view that “the existing methodology could lead to inefficient investment decisions by developers and may at worst provide perverse incentives”. This ignores the fact that for transitional projects Ofgem will making the decision about whether the developer has made an efficient and economic investment decision, and that it has the ability to exclude or reduce the allowed cost of an item in the agreed asset transfer value where it considers the developer has not met these conditions. In the enduring regime, it is not the decision of the developer how much spare capacity will exist in the various offshore elements. We also note that the example tariffs given are at this stage highly speculative since NGET does not yet know the required revenues streams of the OFTOs to be appointed.

In DONG Energy’s view the determination of spare capacity at an offshore network can truly only be determined on a case by case basis. We are not advocating this approach as it does not accord with that adopted onshore. Rather it has to be accepted that some form of “rule of thumb” approach is used and we do not see a compelling case to change the already approved methodology at this stage.

Therefore DONG Energy disagrees with this proposal on the grounds that making such a late change is prejudicial to the interests of offshore generators and fails to meet the objective of facilitating effective competition in generation and supply.

ii) Treatment of Asset Spares

We note that no explicit treatment of spares was covered in earlier proposals for offshore transmission, but that NGET are now proposing to allocate them to the associated asset category. This is not the same treatment as for onshore, which, it is implied (but not stated) would be socialisation. Whilst it is stated “many of the asset spares can only be deployed to a particular offshore system due to non-standard specifications”, this is not backed up by any evidence or information, nor is there any discussion on whether spares held onshore for non-standard designs would have their costs allocated to the specific user local charges.

Depending on the design used and who is appointed OFTO to which projects, there may be opportunities for OFTOs to share spares within their portfolios or with other OFTOs. As a developer, DONG Energy took care to use common design elements which would result in cost savings, but it appears that the way that different OFTOs may be appointed for different projects, and NGETs proposed treatment for the cost of holding spares, will undermine this benefit and cause higher costs for offshore generators compared with their equivalents onshore.

Therefore DONG Energy disagrees with this proposal on the grounds that it is discriminatory against offshore users in a way that is unrelated to differences in the costs of providing the service. We also believe that by distorting the arrangements between offshore and onshore generation it fails to meet the objective of facilitating effective competition in generation and supply.

iii) Treatment of Harmonic Filtering Equipment

On the basis that it has already been agreed that reactive compensation equipment should be allocated to the cable asset for specific projects, we accept a similar arrangement for the treatment of harmonic filtering equipment.

iv) Pass Through of Historic DNO Capital Contributions Forming Part of an OFTO's Tender Revenue Stream

We understand that this issue arose through NGET realising at a late stage that the "capital contributions" paid for a DNO connection would be included in the agreed asset transfer value and thus potentially socialised in whole or in part. The underlying issue is the existing inconsistency in charging (in that an NGET connection is largely socialised but a DNO connection is not), but without addressing this point we see the logic of NGET's approach and accept a degree of "passing through" of all or part of this cost.

However, we do not agree with the specific proposal which is to pro-rate the revenue stream to the DNO capital asset values. This is not correct as only part of that revenue stream relates to "return on capital" items and the balance will be the OFTO's profit, overhead and maintenance costs. Therefore there should be a smaller allocation of the overall revenue stream to the DNO cost item. Whilst the split between "return on capital" and other items will not be in the public domain, Ofgem does have this information and it should be used by NGET to allocate just the appropriate part of the revenue stream to the costs of the DNO assets. It should also be noted that the outline proposal for reactive power operational costs (see below) requires disaggregation of the maintenance component of the revenue stream in respect of the offshore cable and a similar split of cost should be done in this case.

Therefore DONG Energy disagrees with this proposal on the grounds that fails it fails to meet the objective of making the charges which reflect, as far as reasonably practicable, the costs incurred by transmission licensees in their transmission businesses.

v) ETUoS for Single DNO Charge Relating to Multiple Generators

We agree with the proposed clarification on the treatment of DNO charge allocations.

Operational Costs Associated with Reactive Power Provision at the Onshore Interface Point

We note that this part of the consultation is in effect a pre-consultation for the more detailed consultation will follow. We are supportive of changes that deal more equitably with the costs and benefits associated the provision of reactive power at the Interface Point and look forward to commenting on the full consultation in due course.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Anthony Cotton". The signature is fluid and cursive, with the first name "Anthony" written in a larger, more prominent script than the last name "Cotton".

A R Cotton

For and on behalf of DONG Wind (UK) Ltd



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14 May, 2010

Dear Ivo,

GB ECM-24: Transmission Arrangements for Distributed Generation

Thank you for the opportunity to respond to the above pre-consultation. In general we agree with what is being proposed, although we do have some reservations.

Our specific comments on the issues raised are as follows:

1. Clarifications

i) Treatment of IDC and Project Development Overheads

The proposed treatment of Interest During Construction and Project Overheads appears appropriate. Our initial view was that these costs should have been fully socialised. However, the treatment of revenue for onshore projects through the price control does seem to suggest that these costs should be targeted to be consistent. We are uncertain, however, about the conclusion that this does not require a change to the charging methodology. We would have thought that if there is any ambiguity regarding the treatment of these costs that it should be clarified in the charging methodology.

ii) Treatment of costs classified as 'Other' by developers of transitional projects

We did find it difficult to allocate some costs to specific categories when completing the

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questionnaire for transitional projects. Therefore, we can understand why applicants may have used the “other” category for a relatively large proportion of their costs. Further guidance on how to categorise these costs is very welcome. The intention to prorate any remaining costs across all categories seems sensible. Again, there would be a benefit for this to be clarified in the methodology.

iii) Inclusion of HVDC Converter Stations into Methodology Text

We continue to believe that the treatment of HVDC converter stations is contrary to the treatment of substation costs onshore. It may be true that using HVDC converter stations allows you to utilise HV cables which helps reduce the cost per km. However, a similar point could be made about 400kV AC substations compared with 275kV AC substations. Therefore, the treatment should be equivalent. This might entail the costs associated with one HVDC converter station being included in the local substation charge, but to include both stations at each end still seems to be contrary to the principles in the methodology for AC assets.

2. Proposed Modifications

i) Platform Rating for Calculation of Offshore Substation Local Tariff

We agree that the existing method is likely to overstate the capability of the platform. Therefore, we agree with the change to use the minimum of the transformer and switchgear ratings.

ii) Treatment of Asset Spares

The proposed treatment of spares in the local tariff seems appropriate in the present circumstances where spares tend to be held in respect of individual offshore networks.

iii) Treatment of Harmonic Filtering Equipment

Whilst the proposed treatment for harmonic filtering equipment seems acceptable, we wish to note that this issue is presently being discussed by a Grid Code Working Group. Therefore, care needs to be taken to ensure that the charging arrangements are consistent with the conclusions that arise from this work.

iv) Pass Through of Historic DNO Capital Contributions Forming Part of an OFTO's Tender Revenue Stream

Passing these costs through the ETUoS charge is appropriate.

v) ETUoS for Single DNO Charge Relating to Multiple Generators

The proposal to split DNO charges across more than one generation project on the basis of the DNO's methodology rather than by TEC appears to be appropriate, as long as the DNO's method can be demonstrated to be fair and not unduly discriminatory.

3. Operational Costs Associated with Reactive Power Provision at the Onshore Interface Point

As a general principle we remain concerned that the reactive power market is undermined by the exclusion of compensation equipment installed on the transmission network. Therefore, the proposed treatment of reactive compensation equipment on offshore networks would cause us some concern in this context. However, we do note that the proposed treatment is consistent with the treatment of similar equipment on the onshore network. Therefore, on this basis it would seem appropriate.

I hope the above thoughts prove helpful.

Yours sincerely

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Trading Arrangements

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14/05/10

Dear Ivo Spreeuwenberg,

Renewable UK response to:

GB ECM-24: Modification proposal to the Transmission Network Use of System Charging Methodology to update charging arrangements associated with Offshore Transmission Networks

RenewableUK welcomes the opportunity to respond to this consultation on GB ECM-24.

RenewableUK (Formerly The British Wind Energy Association (BWEA)) is the leading UK renewable energy trade association. With over 560 corporate members RenewableUK represents the large majority of the wind, wave and tidal energy companies in the UK.

RenewableUK consider the charging methodology to be one of the key factors in enabling the Government's ambitions of maximising offshore renewable energy generation. Offshore the charging methodology has been developed to reflect onshore practice and, allowing for the generation/demand split, seeks to target the cost of the offshore transmission assets on to the offshore generators. The charging regime leads to very high charges on offshore generators – much higher than any onshore charges.

In addition, the offshore charging regime has been developed with reference to smaller and simpler Round 1 and Round 2 projects. It is not clear that the current charging methodology will remain appropriate for complex Round 3 projects, as well non-generation users such as interconnectors, and clarification is required.

We are currently engaging in an industry wide consultation to establish a single preferred solution to this problem. We intend to develop this solution in discussion with National Grid, the other system owners, DECC and Ofgem and aim to submit our response in the coming months.

While we are unable to address any of the specific points raised in this consultation, we encourage our members to raise their concerns directly and wish to register our interest in further discussion of this topic. We aim to be useful and constructive in forming the charging policy. RenewableUK are fully committed to working with the Government to further our mutual ambitions for maximising offshore renewable energy generation and volunteer the use of our network of industry working groups.

Please do not hesitate to contact me should you have any questions.

Yours sincerely,

Peter Madigan
Head of Offshore Renewables
RenewableUK



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Our Ref: OS01-005526

14 May 2010

Dear Ivo,

Re: Consultation on update charging arrangements associated with Offshore Transmission Networks (GB ECM-24)

RES is one of the world's leading independent renewable energy project developers with operations across Europe, North America and Asia-Pacific. RES has been at the forefront of wind energy development since the 1970s and has developed and/or built more than 4.6GW of wind energy capacity worldwide, including projects in the UK, Ireland, France, Scandinavia and the United States, with a large additional portfolio under construction and in development, both onshore and offshore. RES built its first wind farm in Cornwall in 1992 and since then has built more than 560MW in the UK and Ireland, representing more than 12% of the UK's current wind energy capacity.

The RES Group is active in a range of renewable energy technologies, including large-scale biomass and solar power generation and on-site heat, power and cooling installations (biomass heating, solar PV and thermal and ground source energy). RES also offers design consultancy for sustainable built environments.

RES is an influential market leader with strong environmental, engineering and commercial credentials and has actively engaged in supporting the development of the renewable energy sector in the UK and abroad. Engaging with stakeholders, statutory authorities and policy makers is an important part of RES's business model both at a project and at a national level. We therefore welcome the opportunity to provide comment on the National Grid's offshore network charging arrangements.

We have no comments the majority of the proposals contained within the document however we do not support the reduction in the kilowatt rating of the offshore platform and we are concerned that this matter has so far not been adequately discussed with the industry. As this is a material change which has the potential to significantly impact the local offshore TNUoS charge we believe it would be inappropriate to implement without more and detailed industry consultation.

If you wish to discuss further any comments made in this response please do not hesitate to contact RES.

Yours sincerely,

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Swindon, 14th May 2010

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Consultation GB ECM-24 – Modification Proposal to the Transmission Network Use of System Charging Methodology to update charging arrangements associated with Offshore Transmission Networks

Dear Ivo

Thank you for the opportunity to comment on the consultation document entitled “Modification Proposal to the Transmission Network Use of System Charging Methodology to update charging arrangements associated with Offshore Transmission Networks” (GB ECM-24). This response is provided on behalf of the RWE group of companies, including RWE Npower plc, RWE Supply and Trading GmbH and RWE Npower Renewables Limited, a fully owned subsidiary of RWE Innogy GmbH.

The consultation document seeks to address general issues identified with the implementation of the offshore transmission regime and more specific modifications that clarify the implementation of the charging regime for offshore transmission in the light of new information on the enduring regime. While we welcome this initiative, we are concerned that there is an increased risk of further change reflecting the connection-specific nature of the offshore tender arrangements. We would welcome clarification that further change is not currently envisaged.

We believe that the proposed clarifications to the charging arrangements are sensible and support their implementation. In particular we believe that interest during construction is a legitimate overhead associated with the construction of offshore transmission assets and transmission owners should be able to recover these costs. However, we are unclear as to whether the interest during construction and project development costs associated with the onshore substation would be socialised, as in the wider methodology, or targeted. Further work may be required to clarify this issue. In addition, we assume that Ofgem will subject these costs to scrutiny prior to allowing these to be recovered through the regulated asset base.

We note the proposal associated with the inclusion of HVDC converter station into the text of the methodology. While we support this approach we believe that the issue of HVDC offshore transmission requires wider consideration in the evolution of the charging regime, particular where such assets may be associated with interconnection.

With regard to the proposed modifications we have the following comments:

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- **Platform rating for calculation of offshore substation tariff:** We note the proposal to modify the calculation of the offshore substation tariff by determining the platform rating from the lower of the transformer and switchgear rating. We believe that this change could have a material impact on the charges for offshore transmission. Further work may be required to indicate the potential impact of such a change of both new and existing users. . It should be noted that material changes to the regulatory framework create uncertainty for investors and are unwelcome at such short notice.
- **Treatment of asset spares:** We support the proposal to include connection-specific asset spares in the charging methodology provided that such spares are included in the regulatory asset base determined as part of the licence arrangements. . It is essential that these assets are ring –fenced for the specific project and regulatory asset base to ensure that they are not used or substituted for use elsewhere on the GB transmission system.
- **Treatment of harmonic filtering equipment:** We are unclear as to the extent to which harmonic filtering equipment applies to specific connections or more generally to all offshore connections (for example, is the requirement a function of cable length). If harmonic filtering is location specific then this issue could be addressed through the connection-specific expansion factor.
- **Pass through of historic DNO capital contributions form part of an OFTO's tender revenue stream:** This proposal appears sensible.
- **ETUoS for single DNO charge relating to multiple generators:** We believe that further clarification of required of the nature of the ETUoS charges to ensure that the final transmission charges are cost reflective. In particular the NG and the DNOs should be able to justify any charge to be levied on offshore generators. Pending such clarification, the proposal represents a pragmatic solution.

Operational costs associated with reactive power provision at the onshore interface point

We note the proposed changes to the treatment of operational costs associated with reactive power provision at the onshore interface point. We believe that in order to maintain cost reflectivity the principles for offshore treatment of reactive power operational costs should be consistent with the treatment onshore. However, in the case of the reactive power operational costs for offshore transmission and generation the proposals will result in differential treatment under the charging regime through connection-specific adjustments. Under the circumstances described we believe that the proposed differential treatment may be justified, though we believe that the arrangements should remain under review to ensure cost reflectivity of appropriate charges.

If you wish to discuss any aspect of our response, please do not hesitate to contact me.

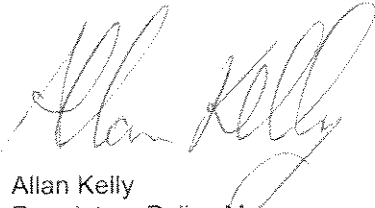
Yours sincerely

By email

Bill Reed
Market Development Manager
RWE Supply & Trading GmbH

We hope our responses and comments are helpful but please contact me if you would like to discuss or clarify any aspects of them.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Allan Kelly". The signature is fluid and cursive, with the first name "Allan" and the last name "Kelly" clearly distinguishable.

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Page 1 of 4

14 May 2010

Offshore Charging Changes – National Grid Consultation GB ECM-24

Dear Ivo,

Many thanks for the opportunity to respond to your proposals on offshore charging. Vattenfall is materially impacted by the proposals through our transmission-level offshore interests, namely:

- We are currently taking two projects, Ormonde and Thanet, through the transitional OFTO tender process. Thanet is currently under construction and, when complete, will be the largest offshore wind farm in the world at 300MW. Ormonde is planned at 150MW and is nearing construction.
- With ScottishPower Renewables, we have been awarded the Round 3 Crown Estate lease for the East Anglia Array zone with a potential capacity of up to 7.2GW.
- Recently-announced extensions to our Thanet and Kentish Flats offshore wind farms.

The impact of your proposals is of immediate concern for Thanet and Ormonde, which have both already been given TNUoS estimates based on your existing methodology. The changes you propose for the treatment of offshore substations increases these estimates by a substantial amount.

More generally the proposals seem to have an over-riding principle of targeting costs directly onto offshore generators, and this principle seems to be much more important to National Grid than other principles such as consistency with onshore or reflecting the costs of generator's decisions.

We elaborate on these and other points in the remainder of our response as follows:

Platform rating for calculation of offshore substation tariff

This proposal has the most material impact on our projects. Our understanding from your consultation is that you have made a mis-judgement – namely that you had not anticipated that switchgear ratings would be as high as they are in some cases. You also appear to be saying that your intent was always to have some socialisation of costs where there is spare capacity in the substations, but not too much socialisation. We would offer the following observations:

- National Grid should understand the drivers for transformer and switchgear ratings. There could well be cases where spare capacity in the transformers differs from spare capacity in the switchgear. Furthermore there could be spare physical capacity in offshore platforms to accommodate further development. It is relatively straight forward to add further transformer and switchgear on an offshore platform, but it is expensive and a high risk activity to build offshore platforms. We are taking this risk and making the substantial upfront investment, but your proposed methodology is not reflecting the significant risk and financial savings a third party would benefit from if they were to connect at a later date. If your principle is to socialise the costs of true spare capacity, then this would ideally be assessed on a case-by-case basis. It is rather arbitrary to use switchgear or transformer ratings to determine platform utilisation. An example of this would be the offshore oil and gas industry in the North Sea where owners take similar risks to build oil and gas pipelines and are rewarded through negotiated remuneration when third parties wish to access their infrastructure.
- However, you appear to be saying that the level of socialisation of offshore platform costs is too high, without explaining why it is too high. You have presented no analysis to say why it is too high. Your analysis in Table 1 just shows the effect of having a smaller denominator. It says absolutely nothing about the relationship between transformer or switchgear ratings to platform utilisation.
- We would note that in some cases your arbitrary assumption might be generous to the wind farm and in others cases it would be unfairly targeted.

Our main concern arising from this is that it is far from clear what you are trying to achieve with this charging methodology. How can we understand what you or Ofgem might consider an acceptable level of cost socialisation? How can we predict when you might change your mind?

This makes it very difficult for us to form our own prediction of TNUoS. We have relied heavily on National Grid's own estimates. Below we tabulate the effect of your proposal on our existing tariff estimates.

	NG estimate £/kW	New estimate £/kW	% increase
Thanet	61.51	65.14	6%
Ormonde	65.43	71.94	10%

These are significant cost variations. On top of this we need to factor in the uncertainty of the final OFTO revenue – something outside of our control. These are projects that are well underway and the level of uncertainty and cost variation could easily trigger a need to re-finance the projects.

Charging principles

Drawing on the above commentary, we note that you record National Grid's key charging principle as follows:

Paragraph 4.4: *"National Grid will seek to expose individual users to the cost implications of their decisions"*

Taking Thanet and Ormonde, we note that both projects are already well past any decision making that could alter the cost profile of the connection design. Thanet is nearing energisation and Ormonde is nearing construction. We have been faced with transitioning over to an OFTO regime and accompanying TNUoS liability, which was a decision made by Ofgem, not us. We will also be given an OFTO appointed by Ofgem, not us. The cost variations in TNUoS under your current proposals stem from National Grid's reflections, not our own. Therefore all of the *"cost implications"* of TNUoS are the result of decisions made by Ofgem and National Grid.

We fail therefore to understand how your proposals align with your own principle. We further note that both projects have been developed throughout with an optimal (low) cost design and competitive tender to provide the offshore transmission system. In regards TNUoS they are already built to the most efficient cost-base as a matter of course.

Furthermore, we note that adjustments to cost targeting on offshore generators has knock-on effects for some onshore generators, in some cases reducing the onshore generator's charges (due to maintenance of the overall 27:73 split between generation and demand). We would question how this aligns with your principle of cost variances reflecting generators decisions (as opposed to a windfall gain).

Treatment of "other" costs

You are proposing to include Interest During Construction (IDC) and project overheads in the allocation of asset costs to the generator – in effect by including them as a cost when calculating the expansion factor for the offshore cable(s). You justify this in terms of consistency with onshore. However Vattenfall is not convinced that all project overheads onshore count towards expansion factors and we would ask for further evidence before you use this as your primary justification.

We consider that you are being too hasty in allocating these costs, again, simply because you wish to bring down the element of socialisation as opposed to being consistent with your stated principles.

Reactive compensation

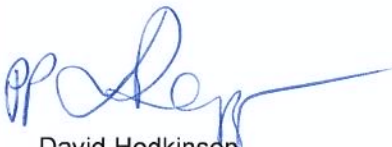
Vattenfall considers that the proposals on reactive compensation appear pragmatic, although we have not considered them in detail at this stage. Furthermore we feel the generator-by-generator obligations onshore result in overprovision of reactive compensation that would be better optimised over local networks.

Final Comments

Vattenfall is concerned that the offshore regime – including the charging regime – continues to be dismissive of the risks and uncertainties being placed on generators. Your proposals simply reinforce our concerns. We understand that there has been enormous pressure to develop the regime in time, and we will continue to engage with you productively. However we do need to be either in the position of controlling and managing our costs, or, to be given fixed and predictable costs that are not subject to this level of ongoing uncertainty.

We trust that these comments are helpful and please do not hesitate to contact us if you require any further information.

Yours sincerely



David Hodkinson

For and on behalf of
Vattenfall Wind Power Ltd