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**Modification proposal to the TNUoS Charging Methodology to introduce charging arrangements associated with Offshore Transmission Networks**

Dear Andrew,

Centrica welcomes the opportunity to comment on National Grid's charging proposals for offshore electricity transmission. Centrica maintains the view presented in its response to the pre-consultation and would ask National Grid to revisit option 3, introducing the onshore connection point as the connection / use of system boundary, to create a clear separation between offshore transmission assets and the onshore charging methodology. The reasons for this are outlined below.

It is Centrica's strong belief that, due to the proposed radial nature of offshore connections, offshore transmission assets, although potentially shareable, are in practice unlikely to be shared with other users. Centrica acknowledges the recommendation of the GBSQSS sub-group but feels that National Grid's desired offshore grid entry point / ownership boundary (the offshore substation LV busbar) is unlikely to incentivise users to share offshore transmission assets under the chosen regime owing to the competitive, complex and costly nature of the non-exclusive approach. Therefore, shallow connection charges are not appropriate, and should not be implemented just to retain consistency with onshore charging arrangements when the nature of offshore assets is very different. Centrica believes that all offshore transmission assets up to the onshore substation should be defined as "single user assets". This is consistent with the industry definition of connection assets (i.e. "those assets solely required to connect an individual user to the GB transmission system, which are not and would not normally be used by any other connected party").

National Grid states that there is no compelling argument for an alternative approach to capturing the costs of substation assets through connection charges, however, in considering the connection / use of system boundary, Centrica would like National Grid to demonstrate the likelihood of offshore assets being shared and provide justification for significantly affecting demand users under option 1 if the potential for sharing is low / non-existent. Surely, if the probability is low, there is more justification for a separate charging methodology for offshore connection assets instead.

Centrica disagrees with the implication in the consultation document that under the plugs charging methodology, option 3 would result in exposing the offshore generator to the costs from wider OFTO decisions to provide additional assets for future connections. If it is felt that the connection

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assets are shareable and will be shared, the new offshore generator should enter into an agreement with the OFTO to pay for 'its' connection costs and split the remaining costs of connection between the relevant offshore generators. Centrica anticipates that such an arrangement for shared offshore connection assets could be easily accommodated and drafted as comparatively, option 3 would still introduce fewer complexities than option 1.

Under option 1, the existing offshore generator could still be liable for the costs associated with the installation of additional capacity / circuit redundancy by paying the residual element in its TNUoS charge. For example, if the OFTO decided to build a substation with redundancy anticipating future additional connections, the cost of this would be in the TNUoS charge for the existing generator. When the new offshore generator connects, TNUoS charges would slightly decrease for both offshore generators, but the first one would have, in effect, partially subsidised the connection of the second offshore generator. In favouring option 1, it is clear that the bulk of the connection costs will be picked up by demand users. Centrica is not comfortable with this suggestion and we feel that it is more appropriate for the offshore generators to pay for the costs they incur and are liable for. It is for the generator to either absorb these costs or decide how to pass them onto consumers since offshore costs can be significant and furthermore, the impact on onshore TNUoS will also be significant. Clearly the upfront costs of offshore connection cannot be prohibitive for incumbent offshore generators that have already decided to develop offshore without any regulatory tariff regime in place.

Centrica feels that it is reasonable to expect offshore generators to pay deeper connection charges as they enter into offshore projects in full knowledge that the cost of constructing and generating offshore will be high in comparison to onshore. As a compensatory measure, offshore generators will already benefit from 1.5 ROC's per MW as opposed to 1 ROC for the equivalent generation onshore (assuming the Energy Bill is approved and banding changes implemented), thus providing them with an opportunity to slightly offset the additional investment. It is Centrica's belief that option 3 would therefore be more reflective of the variables considered when decisions are taken to invest by onshore and offshore generators.

Centrica is also very concerned that the costs associated with the implementation of the new regulatory regime for offshore electricity transmission will far exceed the costs passed onto users for the maintenance, operation and control of the onshore transmission network. Whilst option 3 levies deep connection charges on the user, the ongoing TNUoS liabilities and socialisation will be lower than the deemed charges derived from positioning the connection / use of system boundary at either the offshore substation LV or HV busbar (options 1 and 2). Option 3 will therefore have a lower impact on consumer tariffs as the offshore generator will pick up their own costs for the offshore transmission assets, leaving only the costs associated with investment in the onshore transmission infrastructure assets to be socialised amongst all users of the transmission system (both onshore and offshore). More importantly, demand users (from whom 73% of TNUoS charges are recovered) will experience a more appropriate pass-through of the costs associated with developing and implementing offshore transmission networks.

National Grid's consultation indicates that the likely effect of the high costs of developing offshore wind will be to decrease the revenue recovered from onshore generators (compared to offshore) and increase the amount recovered from demand users. This counters one of the relevant objectives of the Use of System Charging Methodology to facilitate effective competition in generation and supply. Onshore generation TNUoS tariffs will decrease and this could send perverse locational signals and unintended other generation signals, such as encouraging existing, carbon-heavy / less economically viable power plants to continue generating beyond their economic lifespan, or incentivising new, carbon-heavy generation projects. Option 3 will not impact the locational element of TNUoS calculations and will therefore not change the overall recovery mechanism or reduce the generation tariffs for onshore users. Accordingly, this will prevent the introduction of perverse incentives for onshore generators.

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In summary, Centrica strongly advocates the re-evaluation of option 3 as a viable offshore charging methodology as the probability that the offshore assets will be treated as single user assets is high. Centrica also believes that the onshore connection point will lead to fairer treatment of demand users and will provide stronger economic signals for existing onshore generators. A copy of Centrica's response to the pre-consultation is appended to this response.

If option 1 is ultimately implemented, Centrica is in agreement with the decisions that National Grid has made to use a project specific approach to the treatment of expansion factors and HVDC costs, thus mitigating the risk posed by setting a generic threshold too high without the availability of historic data. Centrica is supportive of a move to a more generic approach once sufficient time under the proposed offshore regime has lapsed and project experience has been gained.

A major consequence of opting to position the connection / use of system boundary at the offshore substation (options 1 and 2) is the requirement to calculate expansion factors and therefore the need to include the offshore transmission cables in the ICRP DCLF transport model. As outlined above, Centrica continues to argue for option 3 which will negate the need for this additional work, thus facilitating a simple, transparent charging methodology. However, in applying the project specific expansion factors to the model, National Grid's decision to split the locational and non-locational asset costs is deemed, by Centrica, to be more cost reflective of the differential in the locational element of TNUoS, thus preventing any potential overstating and further reductions in onshore generation tariffs. Centrica concurs with National Grid's view and expresses concern that unless there is a clear regulatory process in place to monitor the OFTO's annual revenue requirements, there is the risk that the OFTO could misallocate the costs, assigning more assets as non-locational and leading to over-recovery which will be socialised through the residual element of TNUoS charges.

Centrica is further concerned that the implementation of option 1 will result in the need for frequent re-opening of the existing onshore price control and re-forecasting of TNUoS tariffs (with more frequency than the current annual publication) with the advent of new offshore developments. Centrica notes that Ofgem's Offshore Electricity Transmission January 2008 Regulatory Update does not allow for price re-openers to the OFTO's twenty year revenue stream (excluding exceptional circumstances whereby projects will be reviewed on a case-by-case basis) and is therefore interested to understand what the process for re-opening the revenue stream will be if option 1 is chosen, forcing the ongoing calculation of expansion factors.

Centrica is preparing a response to the questions raised in the Offshore Access Workshop hosted by National Grid on 3<sup>rd</sup> December, and is also represented on the Ofgem-led Embedded Transmission Working Group. It is essential that these individual workstreams have a coordinated approach surrounding charging proposals and that transparency, consistency and simplicity are key to the introduction of the offshore charging methodologies. National Grid's recent consultation on a proposed discount for design variations (GB ECM-09) could result in discounts being applied for lower standard connections and demand customers being adversely impacted through tariff increases to recover these discounts. In addition, as an enduring solution to GB ECM-09 is currently being considered, if the solution is to go back to a deeper connection charge then option 1 will be in contradiction to the onshore charging methodology. This potential solution to GB ECM-09 seems to clearly favour option 3 for offshore. To strengthen the points raised earlier in this consultation response, it does not seem sensible to apply option 1 as the connection / use of system boundary as option 3 will minimise the collaborative effect on demand users.

Centrica is keen to understand and contribute to any decisions made in relation to applying generation charging zones offshore. It has been acknowledged by Centrica that the recent GB ECM-10 modification makes no reference to the applicability of charging zones offshore.

Centrica is of the view that there appears to be a lot of risk associated with the complexity of applying the onshore methodology to offshore, when the current onshore methodology is still subject to review and modification. Centrica would like reassurance from National Grid / Ofgem

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that regulatory processes will be pre-defined to enable adequate monitoring of the proposed offshore charging methodology prior to implementation. The industry is currently investing a lot of time and money in developing offshore projects and the associated offshore transmission arrangements and it is imperative that the industry is confident that it is delivering the most appropriate regime. This will negate further expense and regulatory risk caused by numerous modifications post-implementation.

If you have any questions or comments relating to this response, please contact me on the number above or at [laura.jeffs@centrica.com](mailto:laura.jeffs@centrica.com)

Yours sincerely,

Laura Jeffs  
Commercial Manager

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