

Annex 1 – Latest National Grid view on potential changes to the TNUoS charging parameters and their potential impact

This annex provides the latest National Grid view on potential changes to the TNUoS charging parameters and their potential impact on tariffs from the start of the RIIO-T1 price control period in April 2013. Whilst it provides an indication of what these parameters could be following the introduction of the new price control, figures presented are subject to further change and should be not taken as final values.

Indicative charging parameter changes

Parameter	Likely change	Justification
Expansion Constant	Increase	Underlying efficient capital costs ¹
Annuity Factor	Decrease	Finance package and opex allowance included in NGET's Initial Proposals
Overhead Factor	Neutral	Finance package and opex allowance included in NGET's Initial Proposals
Capital Costs	Increase	Underlying efficient capital costs
Cable Expansion Factors	Decrease	Underlying capital costs
OHL Expansion Factors	Increase	Reduced uprating of transmission circuits
Security Factor	Neutral	Consistent level of redundancy required

Potential impact on wider tariffs

The chart below shows an initial view of the potential changes to wider generation TNUoS tariffs following changes to the above parameters, along with the likely allowed revenue requirements in 2013/14. It is based on the initial demand and generation backgrounds for 2013/14 as of April 2012. It does not account for any re-zoning of generation.

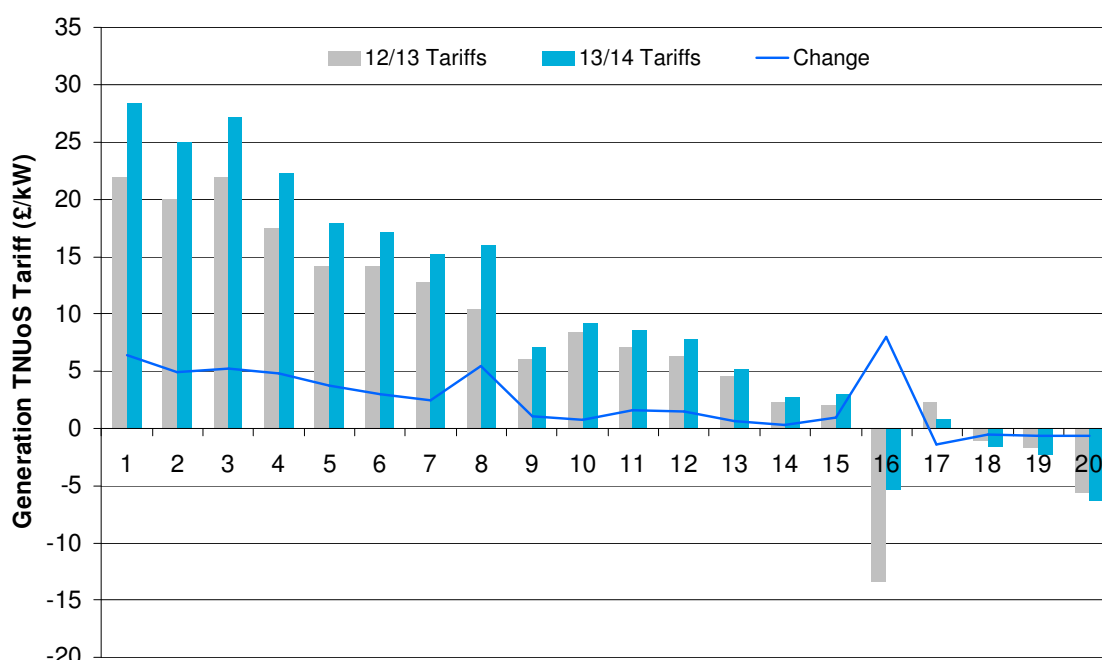


Chart 1 – Initial view of potential 2013/14 wider generation tariffs

¹ likely increase from £11.7/MWkm to around £13/MWkm

Charts 2 and 3 show the direct potential impact of the input parameter changes by comparing changes in indicative 2013/14 tariffs. The tariffs shown in magenta have been estimated with the existing input parameters, whilst those in blue have been produced with updated estimated parameter values. The shaded area represents the potential uncertainty around the parameter changes.

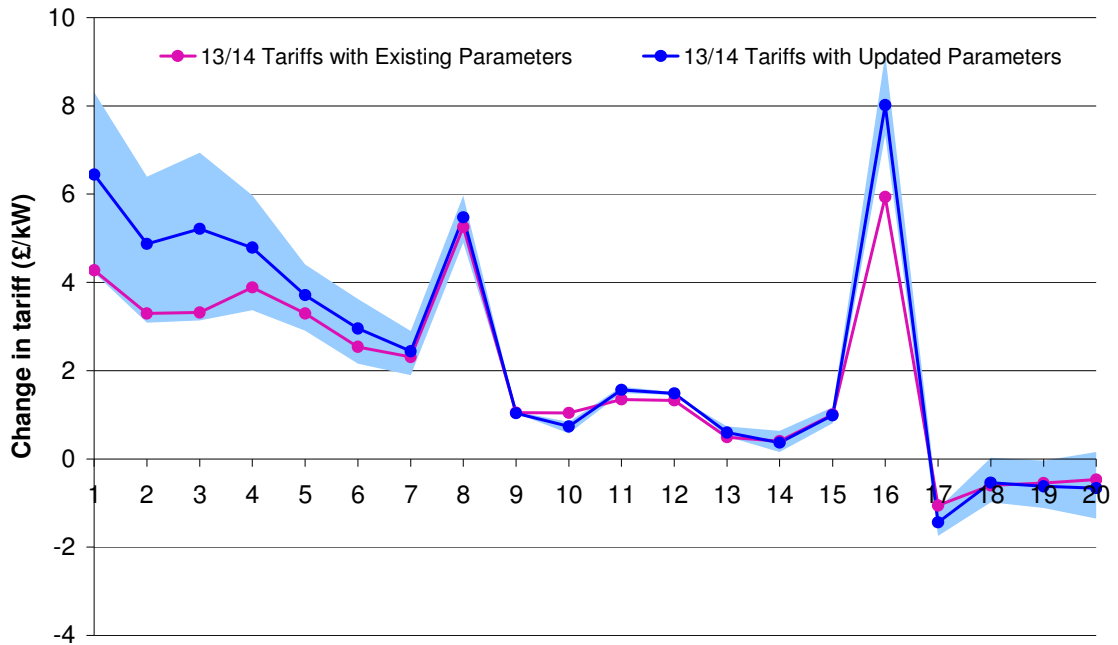


Chart 2 – Potential impact of parameter changes on indicative 2013/14 wider generation tariffs

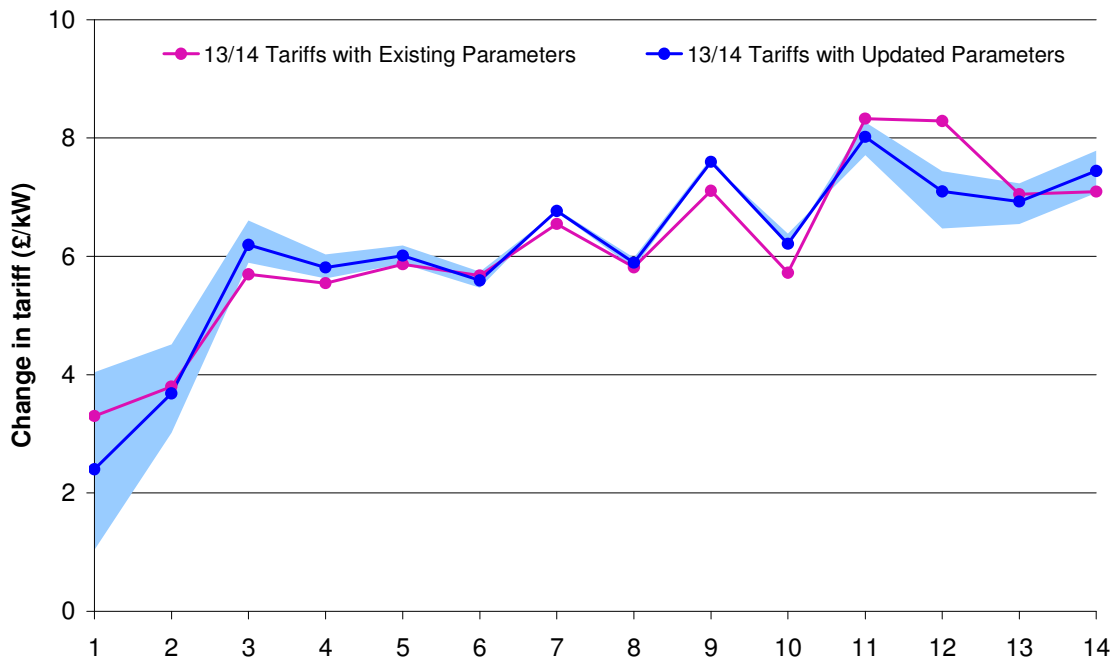


Chart 3 – Potential impact of parameter changes on indicative 2013/14 wider demand tariffs

Potential Impact on Generation Zones

Generation boundaries were last updated in 2006. The following view is presented based on the draft 2013/14 transport model updated with likely values of the expansion constant and expansion factors.

An initial re-zoning view was taken to minimise both the number of zones and also the number of changes from the current position. The results of this consideration are presented in the table below as a view of the likely areas where zone changes may be required. The current zoning criteria is $\pm \text{£}1/\text{kW}$. Zones shown in red (a total of 9) breach this limit with two further zones (zones 8 and 19) being close to this limit.

Zone	Zone Name	Zonal Spread (£/kW)
1	North Scotland	2.1
2	Peterhead	0.0
3	Western Highland & Skye	4.4
4	Central Highlands	0.8
5	Argyll	3.4
6	Stirlingshire	2.4
7	South Scotland	7.1
8	Auchencrosh	1.9
9	Humber & Lancashire	5.3
10	North East England	0.0
11	Anglesey	0.0
12	Dinorwig	0.0
13	South Yorks & North Wales	2.4
14	Midlands	1.4
15	South Wales & Gloucester	6.0
16	Central London	0.0
17	South East	2.8
18	Oxon & South Coast	0.4
19	Wessex	1.8
20	Peninsula	1.3

Table 1 – Potential breaches of TNUoS Generation Zonal $\pm \text{£}1/\text{kW}$ Criteria

On this basis it is estimated that there will be a requirement for an additional 6-10 generation zones, with some further indicative detail being;

- Additional 1-2 zones in north of Scotland.
- Splitting of southern Scotland into east and west. May require additional 2-3 zones.
- 1-2 additional zones required in north midlands.
- Potential for reduced number of zones in North West Wales.
- 2 additional zones required in South Wales.
- Additional zone required for Thames Estuary / South East coast area.