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Dear Ian

Notification to change Use of System Charges for 2014/15

Condition C4 5(a) of National Grid's Electricity Transmission Licence requires National Grid to give the Authority 150 days notice of any proposal to change Use of System Charges. This letter gives notice of our intention to change the following charges for the 2014/15 financial year:

- Transmission Network Use of System Charges
- Application Fees for Connection and Use of System; and
- Charge-Out Rates for Applications.

Transmission Network Use of System Charges

Transmission Network Use of System (TNUoS) tariffs will be amended with effect from 1 April 2014 in accordance with Section 14 of the Connection and Use of System Code (CUSC). Section 14 describes the methodology and principles by which National Grid sets tariffs for TNUoS charges to recover allowed revenue.

The transport model used to calculate TNUoS tariffs will be amended to ensure tariffs reflect:

- Changes in network topography
- Use of the network by demand as advised by Distribution Network Owners and National Grid's own forecasts
- Use of the network by generation as advised by contracted Transmission Entry Capacity and National Grid's own forecasts

The tariff model for TNUoS tariffs will be amended to ensure recovery of:

- Latest forecast revenues for all Transmission Owners under RIIO-T1, which are adjusted each year for inflation, customer activity and Price Control Financial Model Variables as determined by the Authority each November.
- Anticipated payments to new off-shore Transmission Owners forecast to asset transfer during 2013/14 and 2014/15.

- Anticipated payments to Transmission Owners under the Network Innovation Competition, as directed by the Authority in November.

Application Fees for Connection and Use of System

The Statement of Use of System Charges details the application fees for connection and use of system. National Grid will review the fees for applications incorporating updated staff costs, inflation and other costs.

Charge-Out Rates for Variable Price Applications

The Statement of Use of System Charges also details the charge-out rates for engineering charges used in the cost assessment of variable price application for connection and use of system. National Grid will review the rates for variable price applications incorporating updated staff costs, inflation and appropriate resource categorisation.

Expected TNUoS tariffs for 2014/15

National Grid published an initial view of TNUoS tariffs for 2014/14 on its website in January 2013 and updated this in April and July. A further update will be published by 1 November with an indicative tariff published in December. The formal Statement of Use of System Charges for 2014/15 will be published on our website by 31 January 2014 in line with CUSC requirements.

CMP213 – Project TransmiT

The Authority has indicated that it is minded to direct the implementation of CMP213 “Project TransmiT” Working Group Alternative Modification Proposal 2 with effect from 1 April 2014. If this modification is implemented then, as well as the adjustments described above, Generation TNUoS tariffs would be restructured into tariffs for System Peak, Shared Year Round, Non-Shared Year Round and Residual.

Indicative 2014/15 tariffs under CMP213 WACM2 methodology will be published in the November update alongside a report on load factors used to calculate generator Use of System charges. We have already communicated to Ofgem the notice required to implement a direction by the Authority of this, or any other variant of the modification proposal, in time to publish the formal statement of Use of System Charges for 2014/15 by 31 January.

If you have any questions on any of the above please do not hesitate to contact Stuart Boyle (01926 655 588) or myself.

Yours sincerely

[by email]

Patrick Hynes

Electricity Charging & Capacity Development Manager