

Offshore Windfarm Developers
and
Offshore Transmission Owners

Email: Stuart.Borland@ofgem.gov.uk

Date: 20 April 2023

Dear Colleague

Repayment of excess funds following the aggregation of income and costs on Offshore Transmission Tender Round Five (TR5)

The recent aggregation process in relation to tender costs for Offshore Transmission Tender Round Five (TR5) has identified that the total of the payments made to the Authority under the cost recovery methodology exceeds the Authority's total tender costs by £3,503,544. This letter sets out the Authority's decision regarding the repayment of that sum.

Following the final of the five TR5 licences granted in November 2021, Ofgem instructed independent auditors (Deloitte) to undertake specified agreed upon procedures over TR5 Aggregation to provide an independent assessment of the allocation of costs and income in respect of TR5 and to comment on the processes and controls in place for the administration of the cost recovery methodology. These agreed upon procedures have been completed and the report was presented at a meeting of the Audit and Risk Assurance Committee.

The aggregation process identified that Ofgem collected £10,174,926, which represents an excess of £3,503,544 above its tender costs of £6,671,382.

Table 1 – TR5 repayment summary

Total Income	£10,174,926
Total Costs	£6,671,382
Repayment due	£3,503,544

Regulation 30(5) of The Electricity (Competitive Tenders for Offshore Transmission Licences) Regulations 2015 requires the Authority, as soon as reasonably practicable after the aggregation of the payments made under a tender exercise, to repay wholly or in part any payment that has been made, which exceeds the tender costs incurred, to any person who made such a payment, including any interest which may have been accrued.

The Authority considers that the overpayments were made under the successful bidder fees and accordingly will repay the excess funds collected to the TR5 OFTOs. Successful bidder fees are the overwhelming majority of the total fees paid under a tender round and thus have the potential to exceed the costs of the Authority. Fees paid at the invitation to tender stage and by the preferred bidder are relatively small in comparison and have been kept to a minimum for the work involved to encourage competition. We are therefore confident that the fees collected for these stages would not exceed the actual costs.

The excess funds being returned will also include notional interest on the excess for the period from licence grant to the date of the return of the excess funds. The interest rate reflects the interest provided by our bank on positive balances.

The OFTO charges the National Grid Electricity System Operator (NGESO) for the successful bidder fee under the Tender Cost Adjustment (TCA) term in their licence. The repayment will be made under the same provision and will be facilitated through the TNUoS charging methodology.

Should you have any questions in response to this letter, please email them to Ilona Groenewald, Networks (Ilona.Groenewald@Ofgem.gov.uk).

Yours faithfully

Stuart Borland
Deputy Director, Offshore Network Regulation