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**Diamond Transmission Partners**  
**Hornsea Two Limited**  
**Draft Statement of Basis of**  
**Transmission Owner Charges**  
**14 July 2023 to 31 March 2024**

Diamond Transmission Partners Hornsea Two Limited

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## Document History

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2	12/06/23	Section 5 heading updated. Application Fees updated.	Subhash Thapa	G Thornton
3	10/07/23	Financial close and asset transfer dates updated.	Subhash Thapa	G Thornton

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# STATEMENT OF

## DIAMOND TRANSMISSION PARTNERS HORNSEA TWO LIMITED

### BASIS OF TRANSMISSION OWNER CHARGES

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This statement is produced by Diamond Transmission Partners Hornsea Two Limited ("**DTPHT**"), the Offshore Transmission Owner ("**OFTO**"), which sets out the basis of charges for the provision by DTPHT to National Grid Electricity System Operator Limited ("**NGESO**") (the GB System Operator, GBSO) of transmission services as specified in the Offshore Electricity Transmission Licence and System Operator Transmission Owner Code ("**STC**").

This Statement is effective from 14 July 2023.

The charges shall consist of TO General System Charges, TO Site-Specific Charges, Offshore Transmission Owner of Last Resort Charges and Other Charges as set out in this statement.

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## **1 INTRODUCTION**

- 1.1 DTPHT is obliged, under Amended Standard Condition E12 – J9 (Basis of Transmission Owner Charges) of its Offshore Electricity Transmission Licence, to prepare and submit to the Authority a statement in a form approved by the Authority setting out the basis upon which charges will be made by DTPHT for:
- a. provision of transmission owner services;*
  - b. connection to DTPHT's transmission system in such form and detail as shall be necessary to enable NGESO to make a reasonable estimate of the charges to which it would become liable for the provision of DTPHT's services; and*
  - c. outage changes.*
- 1.2 Amended Standard Condition E12 – J9 requires that the statement shall in respect of connection to the licensee's (DTPHT) transmission system include:
- a. a schedule listing those items (including the carrying out of works and the provision and installation of electric lines or electrical plant or meters) of significant cost liable to be required for the purpose of connection (at entry or exit points) to the Licensee's Transmission System and for which site specific charges may be made or levied, and including (where practicable) indicative charges for each such item and, in other cases, an explanation of the methods by which and the principles on which such charges will be calculated;*
  - b. the methods by which and the principles on which site specific charges will be made in circumstances where the electric lines or electrical plant to be installed are (at the licensee's discretion) of greater size or capacity than that required;*
  - c. the methods by which and the principles on which any charges (including any capitalised charge) will be made for required maintenance, replacement and repair of electric lines, electrical plant or meters provided and installed for making a connection to the Licensee's Transmission System;*
  - d. the methods by which and the principles on which any charges will be made for disconnection from the Licensee's Transmission System and the removal of electrical plant, electric lines and ancillary meters following disconnection; and*
  - e. such other matters as shall be specified in directions issued by the Authority from time to time for the purpose of this condition.*
- 1.3 Site specific charges for those items referred to above shall be set at a level which will enable the licensee to recover:
- a. the appropriate proportion of the costs directly or indirectly incurred in carrying out any works, the extension or reinforcement of the Licensee's Transmission System and the provision and installation, maintenance, replacement and repair or (as the case may be) removal following disconnection of any electric lines, electrical plant, meters or other items; and*
  - b. a reasonable rate of return on the capital represented by such costs.*
- 1.4 DTPHT is also obliged, upon being directed to do so by the Authority and within such period as shall be specified in the directions, prepare and submit to the Authority a statement or statements in a form approved by the Authority stating that charges:
- a. for Transmission Owner Services;*

- b. for connection to the Licensee's Transmission System; and*
- c. for Outage Changes.*

The statement or statements shall be in such form and contain such detail as necessary to enable the System Operator to make a reasonable estimate of the charges to which it would become liable for the provision of such services. Without prejudice to the foregoing, the statement(s) shall include the information specified in the directions.

- 1.5 Amended Standard Condition E12-J9 permits and, where appropriate, requires that DTPHT:
- a. may periodically revise this statement and shall, at least once in every year this licence is in force, make any necessary revisions to this statement in order that the information set out in the statement shall continue to be accurate in all material respects, as required by clause 2 and 5 of Amended Standard Condition E12-J9; and
  - b. is required to send a copy of this statement prepared in accordance with clause 2 and 5 and each revision of this statement to the Authority, as required by clause 7 of Amended Standard Condition E12-J9, and shall publish any such statement on its website.

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## 2 PRINCIPLES

- 2.1 This statement sets out DTPHT's charges for the provision of transmission services to NGESO, in its capacity as National Electricity Transmission System Operator ("**NETSO**").
- 2.2 The STC permits DTPHT to charge for its services under a number of headings: TO General System Charges; TO Site-Specific charges; Offshore Transmission Owner of Last Resort Charges and Other Charges.
- 2.3 DTPHT must identify and classify its assets into one of two charging categories:
- a. TO General System Charges; and
  - b. TO Site-Specific Charges.
- DTPHT has identified all of its assets as being attributable to the TO General System Charges category and therefore DTPHT does not have any TO Site-Specific Charges<sup>1</sup>.
- The TO General System charges are designed to recover the cost of the OFTO assets acquired by DTPHT over the 24 year life of the revenue entitlement under the Offshore Electricity Transmission Licence.
- 2.4 If DTPHT is given a Direction under Standard Condition E21 (Offshore Transmission Owner of Last Resort) of the Offshore Electricity Transmission Licence, then it is eligible to charge for services rendered in accordance with these conditions. The principles for charging **Offshore Transmission Owner of Last Resort Charges** are set out later in this statement – see "Offshore Transmission Owner of Last Resort Charges" later in this statement.
- 2.5 DTPHT may at the request of NGESO carry out other work, which is not covered by the TO General System Charges or Offshore Transmission Owner of Last Resort Charges, including, for example, outage rescheduling. The principles for calculating such **Other Charges** are also set out in this statement – see "Other Charges – Excluded Services Charges" later in this statement.
- 2.6 The **TO General System Charges** are charges that relate to the recovery of costs incurred in respect of DTPHT's entire transmission infrastructure from the generators 66kV gas insulated switchgear terminals feeding the offshore transformers located the offshore platform through to the 400kV busbar gas zones at the 400kV Killingholme substation which connects to National Grid Electricity Transmission's onshore transmission network. The principles adopted in determining the TO General System Charges are explained in the section "Transmission Owner Revenue Restriction" outlined later in this statement.
- 2.7 The methodology for calculating the TO General System Charges, TO Site-Specific Charges, the Offshore Transmission Owner of Last Resort Charges and Other Charges is set out on the following pages.

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<sup>1</sup> TO Site Specific Charges relate to costs associated with connections that aren't recovered as TO General System Charges or Other Charges

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### **3 TRANSMISSION OWNER REVENUE RESTRICTION (TO GENERAL SYSTEM CHARGES)**

- 3.1 The Offshore Electricity Transmission Licence sets a restriction on DTPHT's TO General System Charges, as described below.
- 3.2 Amended Standard Condition E12 – J2 (Restriction of Transmission Revenue: Revenue from Transmission Owner Services) of DTPHT's Offshore Electricity Transmission Licence establishes the charge restriction that determines the allowed transmission owner revenue (OFTO<sub>t</sub>) that DTPHT may earn from its transmission owner services.
- 3.3 The formulae for the calculation of OFTO<sub>t</sub> are set out in DTPHT's Licence. Values for certain parameters required to calculate charges for the 2023/24 financial year (year t=1) are as specified in Appendix 1.
- 3.4 In the event of additional capacity being required from DTPHT the value of OFTO<sub>t</sub> will be adjusted in accordance with the formulae set out in the Licence (Amended Standard Condition E12 - J4 (Restriction of Transmission Revenue: Annual Revenue Adjustments) and Standard Condition E17 (Obligations in relation to offers for connection etc.)).

### **4 TRANSMISSION OWNER REVENUE RESTRICTION (TO SITE-SPECIFIC CHARGES)**

- 4.1 DTPHT does not expect to have any TO Site-Specific Charges.
- 4.2 TO Site-Specific Charges relate to costs associated with connections that are not recovered through TO General System Charges or Other Charges. DTPHT expects that the majority of the costs incurred in relation to connections would be recovered through TO General System Charges, with some related charges recovered as Other Charges. As a consequence, DTPHT is unlikely to invoice NGESO for any TO Site-Specific Charges.

### **5 TRANSMISSION OWNER REVENUE RESTRICTION (OFFSHORE TRANSMISSION OWNER OF LAST RESORT CHARGES)**

- 5.1 In the event that DTPHT is given a notice by the Authority under Standard Condition E21 (Offshore Transmission Owner of Last Resort), then DTPHT would be permitted to charge Offshore Transmission Owner of Last Resort Charges for transmission services provided in accordance with the direction of the Authority. These charges would be as set out and specified in a direction issued by the Authority to the OFTO in accordance with Standard Condition E21.

### **6 OTHER CHARGES – EXCLUDED SERVICES CHARGES**

- 6.1 Amended Standard Condition E12 – J10 (Excluded Services) permits DTPHT to charge NGESO for other services provided in addition to those services provided in DTPHT's capacity as Offshore Transmission Owner. No charges can be made to NGESO for any services in so far as they relate to the provision of services remunerated under charges for offshore transmission owner services in accordance with Amended Standard Condition E12 - J9 (Basis of Transmission Owner Charges). The basis for determining transmission owner charges is described above under the section "Transmission Owner Revenue Restriction".
- 6.2 Other charges – excluded services charges are permitted to be made, but not limited to, in respect of the services stated under ES1 to ES5 in Amended Standard Condition E12-J10, paragraph 9 of DTPHT's Offshore Electricity Transmission Licence.

The Other Charges relating to transmission services that can be levied on NGESO by DTPHT in any year are equal to the sum of the charges listed below

net of any Interruption Charges (as defined in the STC) charged by NGESO to DTPHT.

**a. Application fees**

DTPHT will charge NGESO an application fee as set out in Appendix 2 at the time of each application for a new or modified connection to DTPHT's transmission system. The application fee is intended to cover the actual engineering costs and other expenses incurred by DTPHT in preparing an offer of terms, and are dependent upon the size, type and location of the proposed new or modified connection.

DTPHT will monitor and record the actual costs incurred in preparing an offer of terms and when the work has been completed, DTPHT will compare the actual costs incurred to the application fees charged to NGESO. In the event that there is a difference between the application fee and costs incurred this amount will be charged or refunded to NGESO as appropriate.

NGESO will be charged for the actual costs incurred by DTPHT in carrying out this work, based on DTPHT's market based charge-out rates as detailed in Appendix 3 to this statement.

Should NGESO notify DTPHT of changes in the planning assumptions after receipt of an application fee, DTPHT may levy an additional charge. In any event, whether an additional charge is levied or not, the actual costs incurred in preparing a revised connection will be charged to NGESO through the mechanism described above when the offer is completed.

If, in exceptional circumstances, NGESO makes an application which involves significant costs over and above those that would be normally expected (e.g. substantial system studies, specialist surveys, investigations) to process an offer of terms, then DTPHT reserves the right to vary the applicable fee.

If, following completion of the works to which the application related, the incremental capacity incentive adjustment term (ICat) in Amended Standard Condition E12 - J4 (Restriction of Transmission Revenue: Annual Revenue Adjustments) ("incremental capacity incentive") is adjusted so that the cost of the application is recovered through the TO General System Charges, then the application fee will be refunded to NGESO.

**b. Feasibility study fees**

If NGESO requests a feasibility study associated with alterations to or extension of DTPHT's network, a fee (the "**advance fee**") will become payable in advance of any engineering and out-of pocket expenses incurred by DTPHT. The advance fee payable by NGESO will vary according to the size of the study and the amount of work expected and will be charged on the basis of the expected cost of completing the feasibility study.

Actual costs incurred will be based on the DTPHT's market based charge-out rates as shown in Appendix 3 and any other external costs incurred by DTPHT (e.g. travel & subsistence costs, specialist surveys, external consultants etc.) in completing the study. Where the actual engineering and out-of pocket expenses incurred by DTPHT exceed the advance fee, DTPHT will issue an invoice for the excess. Conversely, where DTPHT does not use the whole of the advance, the balance will be refunded.

**c. Abortive works charges**

If as a result of a modification application, received after commencement of works, DTPHT is required to make amendment to the transmission construction works and DTPHT has previously carried out some or all of the



works that are no longer required, then these works are defined as “abortive works”. In such circumstances, NGESO shall be required to make a payment to DTPHT in respect of all fees, expenses and costs of whatever nature reasonably and properly incurred by DTPHT in respect of these abortive works for which DTPHT is responsible or may otherwise become liable in respect of the abortive works.

Invoices will be raised on NGESO in respect of all reasonably incurred costs attributable to the abortive works.

If the abortive works result in an adjustment to the incremental capacity so that the cost, or part thereof, of the abortive works is recovered through the TO General System Charges, then the cost, or part thereof, previously charged to NGESO in respect of the abortive works will be refunded.

**d. De-energisation and disconnection charges**

Where NGESO wishes a supply to be permanently de-energised, a minimum of two business days’ notice (or such other period as may be specified in the STC) to that effect should be given to DTPHT. DTPHT will then arrange to de-energise the supply. An additional charge will be made for this service if undertaken outside normal working hours in order to recover any additional costs for call-out or out-of-hours working.

Temporary de-energisation (and subsequent re-energisation) resulting from the failure by NGESO to comply with the terms of their relevant agreement, or carried out at the request of NGESO, will be charged for by DTPHT to NGESO based on the costs incurred by DTPHT.

If NGESO requests disconnection, this must be requested in writing.

**e. Charges for outage changes**

Where prearranged outages are rearranged at NGESO’s request or where NGESO require additional services for planned or unplanned outages and these services are over and above the normal service provided under DTPHT’s Operation and Maintenance Service Agreement (relevant details of which will be disclosed to NGESO on request), then additional charges will be made in respect of these additional services.

The additional charges levied on NGESO will reflect the reasonably incurred net costs incurred by DTPHT in accommodating NGESO’s request and will be determined in accordance with STCP 11-3 “TO Outage Change Costing”. DTPHT’s charges to NGESO in respect of rearranged outages and/or additional services will include all net costs incurred by DTPHT and will relate directly to the activities required by NGESO. Where appropriate these costs will be based on the market based charge-out rates as shown in Appendix 3 to this statement.

These costs include, but are not limited to:

- i. demobilisation and remobilisation costs;
- ii. costs (including where appropriate, liquidated damages) of standing down or mobilising contractors until the rescheduled outage starts. Costs will be derived from contractors’ invoices and, in the case of liquidated damages, from the relevant agreement(s);
- iii. costs of overtime working to reduce outage time so as to reduce NGESO’s net costs in maintaining system security. Cost will be based on overtime hours worked on the particular outage;
- iv. additional waiting on weather costs for carrying out work at different times of year;

- v. costs of installing additional equipment, as required, such as bypass arrangements; and
- vi. revenue deductions (or increases) through the incentive mechanism that the OFTO may be subject to as a result of the outage changes.

Where an outage is rearranged at NGESO's request, DTPHT will use all reasonable endeavors to minimise the charge to NGESO by redeploying staff and/or contractors onto other work where this is reasonably practicable.

**f. Miscellaneous**

If NGESO should request DTPHT to carry out any other activity which is not covered by the TO General System Charges, TO Site-Specific Charges, Offshore Transmission Owner of Last Resort Charges, Interruption Charges, or the Other Charges specified above, DTPHT will provide terms for the requested work.

Any other service of a type not already referred to within this section where such a service is not part of the normal part of the offshore transmission business will be charged for based on DTPHT's market based charge out rates shown in Appendix 3 together with any other external costs incurred.

## 7 GLOSSARY

Allowed transmission owner revenue (OFTO <sub>t</sub> )	The maximum revenue that DTPHT is permitted to earn from the provision of transmission owner services, as determined by DTPHT's Offshore Electricity Transmission Licence
Authority	The Gas and Electricity Markets Authority (Ofgem)
DTPHT	Diamond Transmission Partners Hornsea Two Limited, the owner of the Hornsea Two offshore transmission system
kV	A unit equal to one thousand volts
NGESO	National Grid Electricity System Operator Limited, the GB system operator
Retail Price Index	Means the general index of retail prices published by the Office for National Statistics each month in respect of all items
Offshore Electricity Transmission Licence	A licence issued by the Authority which permits an OFTO to participate in the transmission of electricity.
Ofgem	The Office of Gas and Electricity Markets, which is governed by the Authority
STC	System Operator - Transmission Owner Code, which defines the high-level relationship between the National Electricity Transmission System Operator (" <b>NETSO</b> ") and Transmission Owners
STCP	System Operator - Transmission Owner Code procedures
OTSDUW Completion Report	An agreement between NGESO and DTPHT pursuant to the STC
Transmission owner or TO	DTPHT is the transmission owner of the Hornsea Two offshore transmission system and is responsible for delivering transmission owner services in accordance with the requirements of its Offshore Electricity Transmission Licence and System Operator Transmission Code
Transmission system	Those assets that comprise DTPHT's entire transmission infrastructure from the generators 66kV gas insulated switchgear terminals feeding the offshore transformers located on the offshore platform through to the 400kV busbar gas zones within the existing National Grid Electricity Transmission Limited's Killingholme 400kV substation.
OFTO	Offshore Transmission Owner
Outage change	A change notified to DTPHT by NGESO on or after week 49 of the calendar year to the Outage Plan, as updated from time to time in accordance with the STC as at the date this condition comes into force.

## APPENDIX 1 – CHARGING PARAMETERS FOR 2023/24

The parameters outlined in the table below are set out in the Amended Standard Conditions of the Licence, specifically in:

- a. E12 - J1 (Restriction of Transmission Revenue: Definitions)
- b. E12 - J2 (Restriction of Transmission Revenue: Revenue from Transmission Owner Services)
- c. E12 - J3 (Restriction of Transmission Revenue: Allowed Pass-through Items); and
- d. E12 - J4 (Restriction of Transmission Revenue: Annual Revenue Adjustments).

Parameter	Value
Tender Relevant Year	Financial year ended 31 March 2024 (this is $t=1$ )
Relevant Year	Financial year ended 31 March 2024 (this is $t=1$ )
$BR_1$ (base transmission revenue)	£35,284,949 (To reflect MRA to be determined at financial close in accordance with Amended Standard Condition E12-A2 (Market Rate Revenue Adjustment))
$TRS_1$ (tender revenue stream)	£50,491,000
$MRA_1$ (market rate revenue adjustment)	To be determined at financial close and will be dependent upon market rates on the day of closing
$PR_1$ (proportion of revenue term)	Asset transfer date: 20 July 2023 Start of commencement relevant year: 01 April 2023 No. of days from start of commencement relevant year to asset transfer: 110 $PR_1 = 1 - (110/365.25)$ $PR_1 = 0.698836413$ $PR_t = 1$ for $t > 1$
$RIT_1$ (revenue indexation adjustment)	$RIT_t = RPI(\text{September})_{t-1} / RPI(\text{Base date})$ $RIT_1 = RPI(\text{September 2022}) / RPI(\text{September 2022})$ Where: $RIT_1 = 1$
$PA_1$ (performance availability revenue adjustment)	$PA_1 = £0$ (being the annual revenue adjustment derived in accordance with Amended Standard Condition E12 - J4)
$LF_1$ (licence fee cost adjustment)	$LF_1 = £0$

Parameter	Value
	(Zero licence fees to Transmission Owners in most circumstances; see clause 3.4 of Ofgem document "Offshore Transmission Tender Guidance Note: Generic Offshore Transmission Owner (OFTO) Licence (3 September 2010)").
RB <sub>1</sub> (network rates)	RB <sub>1</sub> = £3,281,920 x PR <sub>1</sub> (0.698836413) = £2,293,525, being the network rates based on a rateable value of £6,410,000 as provided by the valuation office and applying the non-domestic rating multiplier for 2023/24 of 0.512 in the £.
CEL <sub>1</sub> (Crown Estate lease cost adjustment)	CEL <sub>1</sub> = £4,500 plus non-recoverable VAT (estimated) CEL <sub>t</sub> = £1,577.10 (estimated)
DC <sub>1</sub> (decommissioning cost adjustment)	DC <sub>1</sub> = £0
IAT <sub>1</sub> (income adjusting event revenue adjustment)	IAT <sub>1</sub> = £0
TPD <sub>1</sub> (temporary physical disconnection payment)	TPD <sub>1</sub> = £0
TCA <sub>1</sub> (tender fee cost adjustment)	TCA <sub>1</sub> = £1,934,399.93 Comprising: £250,000 PB Payment £1,600,000 Successful Bidder Payment £84,399.93 Cost Assessment Payment (estimated)
MCA <sub>1</sub> (Marine and Coastal Act 2009 cost adjustment)	MCA <sub>1</sub> = £0
K <sub>1</sub> (revenue restriction correction factor)	K <sub>1</sub> = £0

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## APPENDIX 2 – APPLICATION FEES

Connection or Modification Size	Application Fee
0-10 MW	£144k
10-100 MW	£174k
>100 MW	To be determined in the event of such an application.

All application fees are subject to VAT at the prevailing rate.

### APPENDIX 3 – CHARGE OUT RATES

Grade	Rate (£/7 hours per day)	All fees are subject to VAT at the prevailing rate.
General Manager	2,344	
Asset Manager	1,483	
Financial Controller	1,729	
Senior Accountant	1,483	
Company Accountant	1,238	
Compliance Officer	909	
Administrator	741	
In-house lawyer	1,256	
External Charges	Cost +6%	

The grade and mix of staff/contractors used to carry out the activity being requested will, where practicable, be at the appropriate level associated with the work required. Where particular skills are required that are not covered by the table above, then DTPHT will obtain and provide the necessary resource at the prevailing market rate.

Given the complexity of the marine environment and interaction with prevailing weather conditions, it is possible that staff/contractors that are planned to carry out a specific activity or project are prevented from doing so by inclement weather. In such circumstances, to the extent that DTPHT are unable to redeploy those staff/contractors to another activity then charges based on the above charge out rates will be levied to the activity or project that gave rise to their mobilisation in the first place.