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value for all customers*

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Dear Company Secretary

Approval of statement pursuant to special condition J10 (Basis of transmission owner charges) of Scottish Hydro Electric Transmission Limited's electricity transmission licence.

This letter sets out the Authority's decision to approve the revisions contained in the statement at Annex 1 of this letter pursuant to special condition J10 (Basis of transmission owner charges) ("SC J10") of Scottish Hydro Electric Transmission Limited's ("SHETL") electricity transmission licence.

Background

Under its electricity transmission licence, SHETL is required to have a statement, approved by the Authority, setting out the basis upon which it will charge National Grid Electricity Transmission plc ("NGET") for the services provided. The services comprise:

- Transmission owner services;
- Connections to the licensee's transmission system; and
- Outage charges.

Pursuant to SC J10, SHETL shall, at least once in every year, make necessary revisions to the statement in order that the information set out in the statement shall continue to be accurate in all material respects.

SHETL submitted its revised Statement of the Basis of Transmission Owner Charges for approval by the Authority on 10 March 2009. We published this statement on 25 March 2009¹ and invited wider views on the proposed revisions by 22 April 2009.

The revisions SHETL proposed were of a housekeeping and formatting nature. These additions and changes largely reflect additional explanatory text to describe the transmission owner revenue restriction, excluded services charges and the structure of capital charges for post-BETTA connection assets. Increases were also made to the indicative connection asset

¹ Consultation available on Ofgem website:
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=88&refer=Networks/Trans/ElecTransPolicy/Charging>

charges contained in appendix 1, the application fees contained in appendix 2, and charge out rates in appendix 3 of the statement.

Respondents' views

We received one response to the consultation. This was submitted by NGET and was not marked confidential².

NGET did not suggest any specific changes to SHETL's revised statement included in the consultation. However, it did make a number of general points relating to the harmonisation of both SHETL's and SP Transmission Limited's ("SPTL") statements and the availability of offer prices options. These comments are discussed below.

Harmonisation of the transmission owner charging statements

NGET state they have been working with SHETL and SPTL to remove inconsistencies in interpretation of licence terms in both statements. NGET believe that while this process has helped them understand why such differences exist they do not believe it would be appropriate to harmonise the statements during the current price control period. All three companies have committed to work together and arrive at a common charging approach for the start of the next price control period.

Offer pricing options

NGET state that the remaining area of significant inconsistency is the inability for them to back-off indicative price contracts for users in SHETL's transmission area. This is because SHETL make available only fixed price contracts to NGET, which SHETL retain the right to alter up to 6 months prior to the date of commencement of transmission infrastructure works.

In November 2008 NGET issued an open letter to industry seeking feedback on offer price types³. The responses to this letter indicated a preference for indicative price options, and some interest was also expressed in the SHETL style option where the offer price is fixed ahead of commencement of works. NGET state it is considering whether to make this option available to users across Great Britain, and believe that SHETL should make a reconcilable indicative offer option available to NGET in its capacity as system operator.

Ofgem response to views

Harmonisation of the Transmission Owner charging statements

Through our attendance of the Charging Users Group ("ChUG"), we are aware that NGET, SHETL, and SPTL are working to create greater consistency between the statements, and there has been discussion in that context of the potential to harmonise the three existing statements and produce one statement (subject to appropriate licence changes being implemented). We agree that NGET, SHETL and SPTL should continue to consider the potential for such harmonisation. We note that NGET state that all three companies have committed to complete this work for the start of the next price control period.

However, in the meantime, we expect the three transmission licensees will adopt a common charging approach that is consistent with their statutory and licence obligations. Whilst we welcome the work being progressed to harmonise the three statements in the future, to the extent that any differences of interpretation currently exist that could impact on users'

² This letter can be found here:

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=88&refer=Networks/Trans/ElecTransPolicy/Charging>

³ http://www.nationalgrid.com/NR/rdonlyres/994E438E-507D-4976-91E5-3646B69C8355/29964/OpenlettertoIndustryOfferPriceTypes_Final.pdf

charges, we would expect the licensees to bring forward appropriate changes to existing statements to improve the quality and content of the information set out in the statements.

Offer pricing options

We note NGET's views on the availability of offer price types. We encourage discussions between all parties on this issue to continue through the ChUG forum. We expect any changes required to the charging statements resulting from such discussions to be developed and submitted as part of next year's transmission owner statement revision. Further, we expect that any consequential changes to industry documents required to facilitate such a change to be proposed under normal governance processes.

Authority's decision

We have considered whether the revisions contained in the statement submitted by SHETL are consistent with the requirements of SC J10 and SHETL's wider licence and statutory obligations. On balance, the Authority is content that the proposed statement is consistent with these obligations. Similarly, the Authority has had regard to its principal objective and general duties in considering the draft statement and is content that approval of the revisions in the statement is consistent with these.

Pursuant to paragraph 6 of SC J10, the Authority hereby approves the revisions contained in the Statement of the Basis of Transmission Owner Charges at Annex 1 of this letter.

Yours sincerely,



Stuart Cook
Director, Transmission
Duly authorised on behalf of the Authority