



Company Secretary  
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26 June 2009

Dear Company Secretary

**Approval of statement pursuant to special condition J10 (Basis of transmission owner charges) of SP 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 SP Transmissions Limited's ("SPTL") electricity transmission licence.

**Background**

Under its electricity transmission licence, SPTL 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, SPTL 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.

SPTL submitted its revised Statement of the Basis of Transmission Owner Charges for approval by the Authority on 11 March 2009. We published this statement on 25 March 2009<sup>1</sup> and invited wider views on the proposed revisions by 22 April 2009.

The revisions SPTL proposed were largely of a housekeeping and formatting nature. SPTL changed the structure of the statement to match Scottish Hydro Electric Transmission Limited's ("SHETL") statement. This resulted in the redrafting and moving of large amounts of text. In particular, we note additional explanatory text to describe the transmission owner revenue restriction and excluded services charges. We also note that Part 3 of the statement has been significantly redrafted. Increases were also made to the indicative connection asset charges contained in appendix 1 and the application fees contained in appendix 2.

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<sup>1</sup> Consultation available on Ofgem website:

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

## **Respondents' views**

We received one response to the consultation. This was submitted by NGET and was not marked confidential<sup>2</sup>.

NGET did not suggest any specific changes to SPTL's revised statement included in the consultation. However, they did make a general point relating to the harmonisation of both SPTL's and SHETL's statements.

NGET state they have been working with SPTL and SHETL to remove inconsistencies in interpretation of licence terms in both statements. NGET believe that while this process has helped it understand why such differences exist it does 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.

## **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 if necessary). We agree that NGET, SPTL and SHETL 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' 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.

In particular, we are aware of a difference in interpretation between NGET and SPTL that has resulted in incorrect connection charges being proposed at one site (and potentially others). The cost of certain shared or potentially shareable assets had been proposed to be allocated as connection charges for one user, when these should have been allocated as infrastructure assets (the costs for which are recovered from all users in accordance with NGET's use of system charging methodology).

We understand that NGET and SPTL are reviewing agreements at a number of sites to ensure the correct allocation of costs. In addition, we expect SPTL to review its charging statement and propose any changes that may be necessary to ensure its statement is consistent with NGET's connection charging methodology. We expect SPTL to propose any changes within 3 months of the date of this letter, or to provide to Ofgem in writing the reasons why it does not consider changes are required.

## **Authority's decision**

We have considered whether the revisions contained in the statement submitted by SPTL are consistent with the requirements of SC J10 and SPTL's wider licence and statutory obligations. We have set out above that we expect SPTL to bring forward any changes that may be necessary to ensure its statement is consistent with NGET's connection charging

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<sup>2</sup> This letter can be found here:

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

methodology. Notwithstanding the potential for further changes to be proposed, on balance, the Authority is content that the revised 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 of SPTL's electricity transmission licence, 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,

A handwritten signature in black ink, appearing to read 'Stuart Cook', written over a horizontal line.

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