



To all with an interest in offshore electricity transmission.

Promoting choice and value for all customers

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Dear Colleague,

GENERIC OFTO SPECIAL LICENCE CONDITIONS

Ofgem has today published a generic set of Offshore Transmission Owner (OFTO) special licence conditions¹. These conditions will, among other things, legally define the revenue allowances and performance obligations that are set as part of the offshore transmission regulatory regime. As such, the substance of these conditions will be important to bidders in the tender process (i.e. potential OFTOs), generators and consumers.

Background

In March 2009 the Authority set out, as part of the joint Ofgem/DECC final consultation on the Offshore Transmission regime, its proposed approach for setting the revenue stream and performance incentives that would apply to OFTOs². At that time, the Authority also published for consultation its initial draft OFTO special licence conditions³. These conditions were intended to reflect the policy positions set out in the final consultation document.

Ofgem received views on the special licence conditions consultation from several stakeholders, and we would like to thank respondents for their comments. We recognise, however, that the special licence conditions are key to the regime and considered it appropriate to engage external consultants to study our drafts and provide us with an objective view of the special licence conditions to ensure that they reflected our final policy positions.

As such, Ofgem engaged the Brattle Group to evaluate our drafting of draft special licence conditions C1-C10 and D1. These conditions relate to the revenue restriction (including the performance incentive and adjustment mechanisms) and the reporting requirements. We did not request the Brattle Group to review the draft special licence conditions A1-2

¹ Generally speaking, a special licence condition is a condition that applies only to one individual licensee. Typically such conditions cover matters that are specific to the licensee, such as a restriction on the geographic limit of the licensee's transmission area, the manner in which it is remunerated and any performance obligations it may have.

² See chapter of the final Ofgem/DECC consultation document. Available at: <http://www.ofgem.gov.uk/Networks/offtrans/pdc/cdr/cons2009/Documents1/consultation2309.pdf>

³ See Annex 11 to the Ofgem/DECC consultation document. Available at: <http://www.ofgem.gov.uk/Networks/offtrans/pdc/cdr/cons2009/Documents1/Annex%2011%20-%20OFTO%20Special%20Licence%20Conditions.pdf>

(General Definitions and Implementation) and B1-6 (Scope of the Transmission Licence and Business Separation), because these conditions are similar to special licence conditions in other network licences granted by the Authority.

The Generic Conditions

Following our consideration of stakeholders' comments and the Brattle Group's review of the conditions, we now consider it useful to publish a revised version of the conditions prior to the commencement of the tender process; a further version of the conditions is attached alongside this letter.

This version of the conditions remains 'generic' in that it does not relate to any specific project that will be tendered under the regime. This version is intended to give potential OFTOs and generators greater certainty as to the likely structure of the actual special licence conditions.

We anticipate that as part of each tender a full set of project-specific special licence conditions will be included in the data room at the Invitation to Tender (ITT) stage.

Next Steps

Over the next months Ofgem will be engaging with developers who qualify for the first transitional tender round to develop the final project-specific special conditions. We expect these conditions to be finalised ready for the start of the ITT stage of the tender process.

Additionally, Ofgem is developing a set of guidance notes that will explain the how the special licence conditions are intended to work.

We would welcome any comments that stakeholders have on the revised licence drafting. If you have any comments on the drafting or other queries in relation this letter, please direct them to Sam Cope on 020 7901 7239 or via email at sam.cope@ofgem.gov.uk.

Yours faithfully,

Colin Green,
Head of Offshore Transmission Policy