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value for all customers*

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Date: 20 August 2010

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 set out in a separate Annex to 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 1 April 2010. We published this statement on 4 May 2010<sup>1</sup> and invited wider views on the proposed revisions by 2 June 2010.

Subsequent to the conclusion of our statutory consultation an oversight in terms of the proposed effective date of the draft statement was identified. SHETL submitted an updated statement on 14 June 2010 amending the effective date to '1st April 2010'.

**SHETL's proposed revisions**

The revisions SHETL proposed were of a housekeeping and formatting nature. These additions and changes largely reflect additional explanatory text to describe the Transmission

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<sup>1</sup> Consultation available on Ofgem website:  
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=141&refer=Networks/Trans/ElecTransPolicy/Charging>

Owner Revenue Restriction formula, as set out in special condition J2 of SHETL's transmission licence. Increases were also made to the indicative connection asset charges contained in appendix 1, the application fees contained in appendix 2, and charge out rates in appendix 3 of the statement.

In terms of the housekeeping changes, the proposed revisions to the text of the TO revenue formula is intended to reflect the recent modification to special condition J12 of SHETL's transmission licence associated with the development of enhanced transmission investment incentives. This development introduced a provision in SHETL's TO revenue formula to allow recovery of certain pre-construction and construction costs associated with specific transmission reinforcement projects for the period until 31 March 2012.<sup>2</sup>

In terms of the specific changes, we note the revisions SHETL proposed to Appendix 2 (to reflect the explanatory text in Part 3) of the draft statement. These changes reflect the new structure proposed under NGET's recently concluded Application Fees consultation<sup>3</sup> and reflected in the text contained within Schedule 2 of NGET's Statement of Use of System Charges effective from 1 April 2010. In particular, we note the revision to the Transmission Licensees' Boundaries of Influence Map in appendix 2 – reflecting a reduction in the number of applicable zones from six to three, and a significant revision to the range of application fee figures contained in Tables A and B to reflect the new application fee structure.

## **Respondents' views**

We received one response to the consultation. This was submitted by NGET and was not marked confidential<sup>4</sup>.

NGET did not suggest any specific changes to SHETL's revised statement included in the consultation. However, it did make two general points; one relating to the availability of offer prices options in SHETL's transmission area and another seeking to foster a common understanding of the connection charging boundary between all three licensees.

These comments are discussed below.

### Offer pricing options

NGET state that an area of inconsistency between the structure of the charging arrangements that apply across each licence area is the inability for NGET 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<sup>5</sup>, which SHETL retain the right to alter up to 6 months prior to the date of commencement of transmission infrastructure works. NGET explained that this divergence in approach means that while NGET, in its role as National Electricity Transmission System Operator, can offer an indicative price option for connection applications across GB (i.e. a reconciliation between indicative and actual costs takes place after completion), a reconciliation would never take place for contracts in SHETL's area.

### Connection charging boundary

NGET's response made a general point on the reproduction of the text of the connection charging methodology of NGET within both Scottish licensee statements. NGET agreed with the proposed inclusion of this text but consider that its inclusion now makes it necessary to confirm the interpretation of these clauses with the aim of ensuring a common understanding on the connection charging boundary. NGET noted that it had circulated its position and

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<sup>2</sup> The modification was given effect through a Notice published on 31 March 2010, available from the Ofgem website.

<sup>3</sup> NGET published an "Open Letter to Industry on proposals to restructure application fee tables" published on 16 November 2009. NGET published a 'Response to Open Letter' on 22 February 2010.

<sup>4</sup> This letter can be found via the link provided in footnote 1.

<sup>5</sup> "Indicative Price Offer" on Page 6 of SHETL's statement actually means the price is fixed at a later stage (post-offer), but no reconciliation is available on completion.

relevant understanding on the appropriate clauses and on the connection boundary and charging implications to SP Transmissions Limited's ("SPTL") and SHETL in December 2009 and is currently awaiting comment and confirmation from both.

## **Ofgem response to views**

### Offer pricing options

We note NGET's views on the availability of offer price types. We also note that this issue was raised at the recent Charging Users Group ("ChUG") meeting (June 2010) where SHETL indicated a preliminary target date for the conclusion of its deliberations of October 2010, subject to the completion of a costing exercise.

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 (i.e. 2011/12). Further, we expect that any consequential changes to industry documents required to facilitate such a change to be proposed under normal governance processes.

### Connection charging boundary

We note that further to its response to our consultation, NGET raised this issue at the June 2010 ChUG meeting and that all parties agreed in principle with the need to jointly agree and confirm the interpretation of these clauses with the aim of ensuring a common understanding on the connection charging boundary when dealing with user queries and connection applications.

We note that the issue raised by NGET relates to the desire to have an agreed prescriptive approach that encompasses all charging boundary definition examples across each of the three transmission areas to completely remove the risk of any possible misunderstanding when dealing with customer queries. As such we consider this issue to be outside the scope of our approval obligation. However, we expect this issue to be progressed through the ChUG process in the near future and for any potential differences identified to be addressed by the three transmission licensees in a common approach that is consistent with their statutory and licence obligations and with NGET's connection charging methodology.

Furthermore, we acknowledge that NGET, SHETL, and SPTL have committed to work together and arrive at a common charging approach for the start of the next price control period. In the meantime we recognise that discussion has been ongoing through ChUG to create greater consistency between the statements, and there has been ongoing 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 expect NGET, SHETL and SPTL to continue to consider the potential for such harmonisation.

## **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 set out in a separate Annex to this letter.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Stuart Cook', is written over a single horizontal line that extends to the right.

Stuart Cook  
Senior Partner, Smarter Grids & Governance  
**Duly authorised on behalf of the Authority**