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*Promoting choice and value for
all gas and electricity 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 proposed 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 ("SHTL") electricity transmission licence.

Background

Under its electricity transmission licence, SHTL 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, SHTL 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. SHTL submitted its revised Statement of the Basis of Transmission Owner Charges for approval by the Authority on 11 April 2011. We published this statement on 13 May 2011¹ and invited wider views on the proposed revisions by 10 June 2011.

SHTL's proposed revisions

The revisions SHTL propose are largely of a housekeeping and formatting nature. These proposed amendments relate to increases to the indicative connection asset charges contained in appendix 1 and the application fees contained in appendix 2.

In terms of the specific changes, we note the modifications proposed to the explanatory notes in appendix 2, tables A and B, pertaining to the application fees payable depending

¹ Consultation available on Ofgem website:
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=147&refer=Networks/Trans/ElecTransPolicy/Charging>

on which zone the connection will be constructed. These proposed amendments provide further clarity on the role of the Statement of Works.

Respondents' views

We received one response to the May 2011 consultation on the revisions SHETL has proposed. This was submitted by NGET on 10 June 2011 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 three general observations relating to SHETL's revised statement.

Offer pricing options

NGET states 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 NGET³, 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 System Operator, can offer an indicative price option for connection applications across all licence areas (ie a reconciliation between indicative and actual costs takes place after completion), a reconciliation would never take place for contracts in SHETL's area.

In previous consultations, NGET have stated their desire for SHETL to offer an indicative price option but note that subsequent progress on resolving this matter remains slow.

Determination of EXS

NGET notes that SHETL and SP Transmission Ltd ("SPTL") take different approaches to determining the value of EXS whilst having equivalent definitions of this term in their respective licences. We note that NGET expresses concern over the inconsistency in the respective systems and would like there to be some discussion on reviewing existing arrangements with regard to how they impact upon NGET's own customer facing charges.

Definition of Charging Boundaries

NGET is keen to ensure there is a consistent interpretation of the connection boundary principles and so welcomes, and hopes to see a continuation of, this consistent set of boundary definitions across all transmission owner charging statements.

Ofgem response to respondent's views

Offer pricing options

We note NGET's views on the availability of offer price types and their belief that progress on resolving this matter has been slow. In our 20 August 2010 approval letter we noted this was an ongoing issue and noted SHETL's expectation of completing deliberations on the issue by October 2010 subject to a costing exercise.

We understand from our involvement at the Charging Users Group ("ChUG") that subsequent progress on resolving this matter remains slow and that completion of this action is still outstanding.

²

http://www.ofgem.gov.uk/Networks/Trans/ElecTransPolicy/Charging/Documents1/TO%20Charging%20Statement%202011_12%20Consultation%20Response1.pdf

³ "Indicative Price Offer" on page 11 of SHETL's statement actually means the price is fixed at a later stage (post-offer), but no reconciliation is available on completion.

We consider that the ChUG forum remains the appropriate forum to continue discussions to expedite an outcome satisfactory to all parties. We expect that any changes required to the charging statements resulting from such discussions be developed and submitted as part of next year's transmission owner statement revision (ie 2012/13). Further, we expect that any consequential changes to industry documents required to facilitate such a change to be proposed under normal governance processes.

Determination of EXS

We note NGET's views on this matter and recognise that this issue needs to be clarified between all parties. We would encourage all parties to use the ChUG process to work to harmonise definitions to achieve greater clarity and consistency across all transmission owner charging statements as a matter of urgency.

Through our attendance of ChUG, we are aware that NGET, SHETL, and SPTL are working to create greater consistency between statements, and there has been discussion in that context of the potential to harmonise the three existing statements. We would encourage NGET, SHETL and SPTL to continue to consider the potential for such harmonisation where it improves the quality, content and collective understanding of the information set out in the statements.

Definition of Charging Boundaries

We note the ongoing work between all parties through the ChUG to establish methods of ensuring consistent application of connection boundaries to User Connections. We are pleased that all parties appear to have found some consistency in their approach and have made progress in overcoming the charging boundary issues that have arisen in previous consultations.

On completion, we would encourage all parties to publish this common understanding on the connection charging boundaries that apply across NGET, SHETL and SPTL. We consider that such a document would be a useful reference guide for the classification of Connection, Infrastructure and User Assets across the broad range of scenarios that can occur. Furthermore, we propose that this guide be made available to Users via the National Grid website once complete and agreed through ChUG.

Authority's decision

We have considered whether the proposed revisions contained in the wider 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,

Hannah Nixon

Acting Senior Partner, Smarter Grids & Governance: Transmission

Duly authorised on behalf of the Authority