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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 SP 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 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 charging year 2011/12 for approval by the Authority in May 2011. We published this statement on 13 May 2011¹ and invited wider views on the proposed revisions by 10 June 2011. Following this initial consultation, the Authority became aware of an administrative error in SPTL's revised statement for charging year 2011/12, which incorrectly identified proposed revisions against a version of the statement that pre-dated the approved statement for charging year 2010/11. Subsequently, on 1 August 2011 SPTL submitted a new revised statement to the Authority for approval².

¹ Consultation available on Ofgem website:

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=147&refer=Networks/Trans/ElecTransPolicy/Charging>

[ng](#)

[http://www.ofgem.gov.uk/Networks/Trans/ElecTransPolicy/Charging/Documents1/Draft%20Scottish%20Power%20Transmission%20Ltd%20SPTL%20Transmission%20Owner%20Charges%202011_12%20\(August%202011%20R-e-consultation\).pdf](http://www.ofgem.gov.uk/Networks/Trans/ElecTransPolicy/Charging/Documents1/Draft%20Scottish%20Power%20Transmission%20Ltd%20SPTL%20Transmission%20Owner%20Charges%202011_12%20(August%202011%20R-e-consultation).pdf)

We considered it appropriate to re-consult on these proposed changes before making a decision on whether to approve the statement. We published this revised statement on 5 August 2011 and invited wider views on the proposed revisions by 2 September 2011³.

SPTL's proposed revisions

The revisions SPTL proposes comprise changes of a housekeeping nature, and specific content changes to better align the information SPTL provides to NGET under its Special Condition J8 (Provision of Information to the System Operator) ("SC J8") of SPTL's electricity transmission licence.

In terms of the proposed housekeeping changes, we note the proposed modification to the explanatory text to describe Contestable Connection Works (page 13 of the revised statement) and some proposed deletions and amendments to the text in the Glossary of Terms.

In terms of specific changes, we note that SPTL proposes small revisions to the following areas:

- The definition of "Capital Charges" under Part 2 of the statement (page 8) to ensure its statement is consistent with NGET's connection charging methodology.
- The explanatory text to describe the calculation of the Gross Asset Value and Net Asset Value relevant to payment option 4 under Part 2 of the statement (page 9). These amendments provide clarity of the cost calculation method applied by SPTL.
- The inclusion of new explanatory text to describe the charges to NGET for the provision of energy metering systems to ensure its statement is consistent with NGET's connection charging methodology.
- The indicative connection asset charges contained in appendix 1, increasing the unit charge levels, and additions to the list of factors identified as having a consequential effect on these charges. These amendments provide further clarity on the typical costs to be faced by users for connection in SPTL's area.
- Modifications made to tables A–D in appendix 2, pertaining to the application fees payable depending on which zone the connection will be constructed.
- The charge-out rates contained in appendix 3.

We also note the revisions to the Transmission Owner Revenue Restriction section (page 4), in particular the text describing SC J8 of SPTL's transmission licence and the text describing the EXS_t term, as remunerated under special condition J2 ("SC J2"). Further, we note that a change has also been made to the explanatory text describing the General System Charge (GSC) on page 7 to take account of the changes to the text described above.

The revisions have been the result of independent discussions between NGET and SPTL to address concerns that NGET raised in its original consultation response of 10 June 2011 relating to their understanding of the approach used by SPTL to determine the value of the EXS term under SC J2 of its licence and its effect on the revenue that NGET recovers on behalf of SPTL under SC J8 through Transmission Network Use of System (TNUoS) charges⁴.

³ http://www.ofgem.gov.uk/Networks/Trans/ElecTransPolicy/Charging/Documents1/SPT%20Re-consultation%20on%20modifications%20to%20Statements%20of%20the%20Basis%20for%20Transmission%20Owner%20Charges_%20August%202011.pdf

⁴ In the case of TNUoS charges, SPTL provides a value of 'TSP' which is an allowed item within National Grid's own allowed revenue, which is subsequently recovered through TNUoS charges.

Respondents' views

We received one response to the re-consultation. This was submitted by NGET and was not marked confidential⁵. NGET noted that the revised statement addressed the specific issues raised in its original response of 10 June 2011. NGET did not suggest any additional changes to SPTL's revised statement. However, it made three general observations about SPTL's charging arrangements and the continued need to ensure collective understanding.

Treatment of Operation and Maintenance (O&M) costs

NGET noted that SPTL continues to recover O&M costs associated with post-vesting connection assets through its GSC rather than Site Specific Charges (SSC). NGET noted this is different from the approach adopted by Scottish Hydro Electric Transmission Limited ("SHETL") (and by NGET in the customer-facing TNUoS charging methodology). NGET propose that because the wider commercial and regulatory frameworks appear to be the same for both SPTL and SHETL, it would be helpful if there were greater consistency between the structure of the charging arrangements that apply across each licence area and would welcome further discussions to explore these possibilities.

Determination of EXS

NGET welcomed the changes that SPTL have made to clarify the definitions of GSC and SSC believing this establishes greater clarity and understanding for all parties concerned. NGET also welcomed SPTL's submission of an accompanying letter⁶ that explains the principles behind, and composition of, SPTL's charging arrangements which, they advise, provides NGET with a more complete understanding of the relationship between the terms contained in SC J8 (ie TSP and EXS) and the description of terms contained in the statement (ie SSC and GSC). NGET would like to continue discussions with SPT to ensure that this level of clarity continues.

Definition of connection 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

Treatment of O&M costs

We note that SPTL recovers O&M costs associated with post-vesting connection assets through GSC rather than SSC, which is different from the approach adopted by SHETL and by NGET in the customer-facing GB charging methodology. We note that NGET have intimated a desire for greater consistency in the structure of the charging arrangements that apply across each licence area on this subject.

We encourage discussions between all parties on this issue to continue through the Charging Users Group ("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 (ie 2012/13). Further, we expect that any consequential changes to industry documents required to facilitate such a change will be proposed under normal governance processes.

⁵

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

⁶

<http://www.ofgem.gov.uk/Networks/Trans/ElecTransPolicy/Charging/Documents1/SPT%20charging%20statement%20letter%20Aug%202011.pdf>

Determination of EXS

NGET's response made the general point that SC J8 of SPTL's transmission licence states that TSP is calculated by reference to its price controlled revenue (TOt) and the price controlled revenue that is recovered through connection charges (EXS). Specifically, TSP is the difference between TOt and EXS (ie $TSP = TOt - EXSt$). We note that the revisions to the text describing SC J8 and the EXS term (page 4) have been proposed to better align with the information SPTL provides to NGET under its SC J8.

We acknowledge NGET's view that these proposed amendments provide further clarity on the role of the EXS term and the revenue that NGET recovers on behalf of the SPTL under SC J8 (ie TSP now equates to GSC).

While we welcome this additional clarity, and are encouraged by the independent process initiated by NGET and SPTL to improve their collective understanding, we are of the opinion that this situation further highlights that wherever possible and appropriate, consistency in transmission owner treatment of costs and their allocation should be aimed for. As such, we look to SPTL, SHETL and NGET to continue to work to improve the consistency between the respective approaches, with the aim of eliminating the possibilities for future mismatches in revenue and the charging approach applied.

In terms of the next steps in this process, this work should be undertaken over the remainder of the current financial year within the ChUG forum. Any changes or points of clarification should be made for inclusion in the relevant transmission owner statement revision for charging year 2012/13.

Definition of connection 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 statement submitted by SPTL are consistent with the requirements of SC J10 and SPTL'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

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Duly authorised on behalf of the Authority