

Any interested parties for the first and second transitional tender rounds.

Promoting choice and value for

Direct Dial: 020 7901 7421

Email: Stephen.beel@ofgem.gov.uk

Date: 14 December 2011

Dear Colleague,

Open Letter : Offshore Electricity Transmission: Cost Recovery Methodology

The Electricity (Competitive Tenders for Offshore Transmission Licences) Regulations 2010 ("Tender Regulations") set out the legal framework and powers for Ofgem to run a competitive tender process for transitional projects. In accordance with the Tender Regulations, Ofgem publishes a cost recovery methodology for each tender round which provides an overview of the costs we would recover during a tender process, as well as detail on the payments we would require from participants to recover these costs.

The latest version of the Cost Recovery Methodology for the first transitional tender round (TR1) was published in Appendix 1 to the Tender Rules for TR1 in September 2010. The Cost Recovery Methodology for the second transitional tender round (TR2) was also published in September 2010.

Ofgem has now updated the Cost Recovery Methodology for both tender rounds in respect of the following:

- to add a variable component to successful bidder fees to reflect our incremental costs if the project requires additional stages of evaluation (for example through a tender re-run or holding a best and final offer stage) or any unforeseen circumstances arise in relation to the tender exercise for the project which result in increased tender costs. This fee is recoverable by the offshore transmission owner (OFTO) from the National Electricity Transmission System Operator (NETSO); and
- to amend the form of demand against the letter of credit which may be supplied by a developer as security to update the referencing of the Tender Regulations. The cost of the letter of credit is recoverable by developers as a transaction cost as part of the transfer value.

The updated version of the Cost Recovery Methodology for TR1 is published as Appendix 1 in version 1.2 of the Tender Rules for TR1 and is available here:

<http://www.ofgem.gov.uk/Networks/offtrans/rott/Pages/rott.aspx>

The updated Cost Recovery Methodology for TR2 is available on our website here:

<http://www.ofgem.gov.uk/NETWORKS/OFFTRANS/RTTT/Pages/rttt.aspx>

Should you have any queries in relation to this letter, please contact Stephen Beel at Stephen.beel@ofgem.gov.uk.

Yours sincerely,

Robert Hull
Managing Director, Commercial, Ofgem E-Serve