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*Promoting choice and value for
all gas and electricity customers*

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Date: 26 June 2012

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 basis for our decision to approve changes to the charging statement for Scottish Hydro Electric Transmission Limited ("SHTL").

Background

Under its electricity transmission licence, SHTL is required to have a statement, approved by us, setting out the basis upon which it will charge National Grid Electricity Transmission plc ("NGET") for services provided. The services comprise:

- transmission owner ("TO") services;
- connections to the licensee's transmission system; and
- outage charges.

Pursuant to SC J10, SHTL must, 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 ("the Statement") for approval by the Authority on 29 March 2012. We published this draft Statement on 20 April 2012 and invited wider views on the proposed revisions by 18 May 2012¹.

SHTL's proposed changes

The changes SHTL propose mainly relate to the routine update of values within the Statement. These proposed changes principally relate to increases to the following:

- indicative connection asset charges contained in appendix 1;
- application fees contained in appendix 2; and
- charge-out rates contained in appendix 3.

¹ Consultation available on Ofgem website:
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=162&refer=Networks/Trans/ElecTransPolicy/Charging>

Response to consultation

We received one response to the consultation. This was submitted by NGET and was not marked confidential². NGET noted, and welcomed, the progress made on issues raised in its response to the 2011/12 TO charging statement consultation which has resulted in greater consistency between the statements of NGET, SPTL and SHETL³. Nonetheless, NGET highlighted some further issues it wished to see addressed in order to achieve a more consistent, harmonised approach to the approval and application of NGET's and the Scottish TOs' charging statements.

Issues with SHETL's Statement

Offer pricing options

In NGET's responses to previous consultations on SHETL's Statement, it highlighted an area of inconsistency between the structure of the charging arrangements that apply across each licence area. This inconsistency restricts NGET's ability to fully reflect the terms of an indicative price contract⁴ for users in SHETL's transmission area. NGET notes that while SHETL has agreed to expedite the development of an indicative price option, the progress on this remains slow.

Issues common to both SPTL and SHETL

Timing

NGET, in its role as System Operator, published its charging statement for the charging year 2012/13 on 1 April 2012. In recent years, this publication has preceded the publication for consultation, and ultimately for our approval, of SPTL's and SHETL's TO charging statements. As a consequence of the interactions between the information contained within these charging statements, NGET believes there may be value in NGET and the Scottish TOs exploring opportunities for a more collaborative approach in planning and coordinating potential changes to them. NGET believes this will allow for a smoother, more consistent and timely approach to the approval of NGET, SHETL and SPTL's charging statements.

Application fees

As a consequence of the issue noted above, NGET published its 2012/13 charging statement after the consultation on the proposed changes to the 2012/13 Scottish TO charging statements was initiated. NGET considers that potentially this could lead to it having to amend and re-issue its own statement to reflect any changes in the TO charging statements.

Furthermore, NGET has asked for clarification about application fees, particularly relating to which fees are reconciled and/or refunded. NGET advise this is because it seeks to remain cost neutral and believes greater clarity on this issue would serve to better ensure that there is no mismatch between NGET and the customer, or NGET and the TOs, which could result in an over/under recovery of revenue.

²

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

³ E.g. NGET notes the consistent interpretation and application of charging boundary principles and definitions across NGET's and the Scottish TOs' statements.

⁴ NGET states this issue has arisen because SHETL only makes available fixed price contracts to NGET, and SHETL retains the right to alter these up to six months prior to the date of commencement of transmission infrastructure works. NGET advises 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 (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.

Ofgem's views

Offer pricing options

We note NGET's views on the availability of offer price types and its belief that SHETL's progress on resolving this matter has been slow. In our letter of 29 September 2011 approving SHETL's 2011/12 Statement we noted this was an ongoing issue and encouraged SHETL to complete its deliberations on how to develop a proposal acceptable to all parties. We understand from our involvement in the Charging Users Group ("ChUG") that progress has recently been made on SHETL's development of an indicative price option, but that completion of this action is still outstanding. However, we welcome the news that, following the submission of NGET's consultation response, bilateral discussions have since taken place between the parties, aimed at expediting the process.

We expect the relevant parties to develop these proposals in a timely manner, with any required changes to the charging statements resulting from such discussions to be developed and submitted as part of next year's TO charging statement revision. Any consequential changes to industry documents required to facilitate such a change should be proposed in good time under normal governance processes.

Timing

We note from our participation in the ChUG that NGET has been keen to explore opportunities for greater alignment in the approval processes for the Scottish TOs' and NGET's charging statements. We encourage discussions between all parties on this issue to continue through the ChUG forum in order to reach an outcome that is both mutually agreeable and consistent with the respective licence conditions of the relevant parties.

Application fees

We note NGET's request for additional clarity in relation to application fees, particularly around which fees are reconciled and/or refunded. We encourage parties to continue discussions on this issue through the ChUG to explore opportunities for better coordinating prospective changes to their respective statements in advance of their submission for approval.

Authority's decision

We have considered whether the proposed changes contained in the draft Statement submitted by SHETL are consistent with the requirements of SC J10 and SHETL's wider licence and statutory obligations. We have also had regard to our principal objective and general duties in considering the draft Statement. We are satisfied that approval of the changes to 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 annexed to this letter.

Yours sincerely,



Andrew Burgess
Associate Partner, Transmission and Distribution Policy

Duly authorised on behalf of the Authority