

Offshore transmission owners (OFTOs), preferred bidders and other interested parties

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

Our Ref: 24/13  
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Dear Colleague,

**Consultation on changes to the regulatory instructions and guidance described by amended standard condition E12 – D1 of the offshore transmission licence**

This is a consultation on amendments to the regulatory instructions and guidance (RIGs). We have published the RIGs in two sections alongside this letter. Please respond by 25 March 2013 to the address given below.

Ofgem, in collaboration with the Department of Energy and Climate Change (DECC), has established the offshore transmission regulatory regime. This has resulted in the creation of offshore transmission owners (OFTOs) and will create more in the future. These OFTOs are bound by the conditions of the offshore transmission licence. One of the licence obligations the OFTOs have is to submit cost, revenue and incentive reporting to the Gas and Electricity Markets Authority (the "Authority").

Amended standard condition E12 – D1 of the offshore transmission licence requires licensees to provide the following to the Authority annually:

- an audited revenue return;
- a forecast revenue return;
- a cost reporting pack;
- transmission system availability incentive information; and
- incremental capacity adjustment information.

In November 2010<sup>1</sup> we consulted on the proposed format of the RIGs for OFTOs. Following consultation we introduced the first version of the RIGs for OFTOs in March 2011<sup>2</sup>. We are now looking to improve the clarity and usability of the RIGs and are consulting on a number of changes to the RIGs. Modifications to the RIGs are provided for under part E of amended standard condition E12 – D1.

The licence identifies the purpose of the RIGs as allowing the Authority to "monitor effectively the revenue of the consolidated transmission business". In particular the monitoring involved includes:

<sup>1</sup> See the consultation available here:

[http://www.ofgem.gov.uk/Networks/offtrans/pdc/cdr/Cons2010/Documents1/Open%20letter%20consultation%20on%20the%20regulatory%20instructions%20and%20guidance%20\(RIGs\)%20for%20offshore%20transmission%20owners%20\(OFTOs\).pdf](http://www.ofgem.gov.uk/Networks/offtrans/pdc/cdr/Cons2010/Documents1/Open%20letter%20consultation%20on%20the%20regulatory%20instructions%20and%20guidance%20(RIGs)%20for%20offshore%20transmission%20owners%20(OFTOs).pdf)

<sup>2</sup> See the first version of the RIGs available here:

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=5&refer=Networks/offtrans/pdc/cdr/Cons2011>

- ensuring that the revenues charged are in line with the tender revenue stream (TRS), as adjusted for incentives;
- monitoring OFTO availability performance to calculate the incentive based revenue to which the OFTO is entitled;
- monitoring OFTO costs to inform future cost assessments and tender evaluations
- monitoring OFTO financial health; and
- providing a base line set of data to be available in the event of OFTO financial distress.

The RIGs give the details of the information that the licensees should provide to comply with this condition. The RIGs also detail the administrative arrangements for completing and submitting this information. We publish the proposed RIGs and associated reporting templates alongside this letter for OFTOs, preferred bidders and other interested parties to review.

The first round of OFTO regulatory reporting has been completed. From this we have identified improvements that could be made to the RIGs for the next round of reporting. The updated RIGs will be applicable for the regulatory reporting for the period from the 1<sup>st</sup> April 2012 to the 31<sup>st</sup> March 2013. We note that since the changes being consulted on are purely intended to enhance the clarity of the existing reporting requirements we do not believe the timing of these changes will cause difficulty in complying with the requirements.

Descriptions of all the changes can be found in Appendix 1. A summary of the changes is set out below. We have updated:

- the RIGs document to provide enhanced clarity on incentive reporting;
- the numbering of incentive periods and relevant years in the spreadsheets so that it now reflects the licence;
- formulae to correct calculation errors in the spreadsheet to reflect the licence and accompanying RIGs document; and
- the wording for formulae in the spreadsheet to reflect the licence.

This consultation will run for thirty days. The consultation will be of this shorter length due to the nature of the modifications. They are all minor changes required to ensure compliance with the licence, with no substantive changes to the reporting. Additionally there has already been considerable engagement with the key stakeholders on the reporting in the previous RIGs consultation and these changes are incremental to the requirements previously consulted upon.

Any consultation responses should be made in writing by the 25 March 2013. They should be sent to Daniel Rock at Ofgem E-Serve, 9 Millbank, London, SW1P 3GE or by email to [daniel.rock@ofgem.gov.uk](mailto:daniel.rock@ofgem.gov.uk) and [offshore.reporting@ofgem.gov.uk](mailto:offshore.reporting@ofgem.gov.uk). Any responses which the respondent does not wish to be published should be marked as confidential.

Yours faithfully

**Min Zhu**  
**Associate Director, Offshore Transmission**

**For and on behalf of the Authority**

## Appendix 1 - List of the changes to the RIGs document and spreadsheets

We have:

- Provided greater clarity in the RIGs Revenue document on the reporting of outages.
- Updated the wording for  $OFTO_t$  in the RIGs Revenue document so that it is consistent with the licence.
- Provided clarity on incremental capacity and the Composite Circuit Rating (CCR) term in the RIGs Revenue document.
- Included information about incremental capacity in the RIGs Revenue document.
- Updated the average specified Barclays Interest Rate to bring it in line with what is shown in the licence.
- Renamed cell D8 in tab 4a to 'Maximum operational days in month.'
- Renumbered the years in tabs 4a, and 4b so that it starts from year  $y=2$  not  $y=1$ , so that it is consistent with the licence.
- Update the  $OFTO_t$  calculation in tab 2f of the revenue reporting template so it subtracts  $K_t$  not adds it, in order to be consistent with the licence.
- In tab 2d, updated the cells for Transmission System Availability Credit (TSAC) and Transmission System Availability Failure (TSAF) for year 21 so they reference row 36 not row 35.
- Updated the wording for formulae  $PA_t$ ,  $BR_t$ ,  $PT_t$  and  $OFTO_t$  throughout the spreadsheet so that it matches the licence and the RIGs document.
- Removed references to  $K_{t+1}$  when talking about 'Over/under recovery' throughout the spreadsheets in the revenue reporting template.
- Linked in the 'Universal Data' across all of the spreadsheets in both templates.
- Updated the spreadsheet "1. Inputs" in the revenue reporting template so that the RPI data is now user input, not Ofgem input.
- Included the name, position and date in the declaration box on the Sign Off sheet for both the Revenue Reporting and Cost Reporting.