

Any interested parties in Offshore Electricity Transmission.

Promoting choice and value for all gas and electricity customers

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Dear Colleague

Open Letter – Offshore Electricity Transmission: Update to the Tender Rules and Cost Recovery Methodology

Revised Tender Rules for the Second Transitional Tender Round (Tranche B)

The Tender Rules, in conjunction with the Tender Regulations, set out the rules that Developers and Bidders should comply with in participating in a Tender Round for the grant of Offshore Transmission Licences.

Ofgem has published revised Tender Rules in order to inform participants in the second transitional Tender Round (Tranche B) in further detail about how Ofgem will run the tender exercise for the West of Duddon Sands project which is now subject to the 2013 Regulations¹. Further information on the 2013 Regulations is available on Ofgem's website: <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=7&refer=NETWORKS/OFFTRANS/PDC/CDR/2013>

The updated Tender Rules for the Second Transitional Tender Round (Tranche B) is available on our website here: <http://www.ofgem.gov.uk/Networks/offtrans/rttt/Pages/rttt.aspx>

Updated Cost Recovery Methodology for the Second Transitional Tender Round

The Cost Recovery Methodology sets out the methodology for the calculation and recovery of Ofgem's costs in relation to Tender Exercises.

The Cost Recovery Methodology for the second transitional Tender Round has been updated to incorporate the application of the 2013 Regulations to the West of Duddon Sands tender exercise and to amend some of the fees in the charging schedule. Unlike the revised Tender Rules, the updated Cost Recovery Methodology applies to all projects in the second transitional Tender Round.

¹ <http://www.legislation.gov.uk/uksi/2013/175/made>

The fees have been amended due to the longer than expected timescales for projects to be ready for transfer by developers and the reduction in the number of projects for the second transitional Tender Round from the originally expected six to four (only one of the three projects anticipated in Tranche B sought to qualify by the 31 March 2012 deadline). Consequently there are two fewer projects from whom to recover costs.

The only fee area that is being amended is the Successful Bidder sliding scale, which will now become steps of £650,000 per £100 million of transfer value (it was previously £500,000 per £100 million of transfer value). These fees will be recovered by the Successful Bidder from the National Electricity Transmission System Operator (NETSO) once the Successful Bidder is granted a licence.

Based on experience from recent projects we have also revised the forecast fee for the costs associated with assessing the Initial Transfer Value and determining the Final Transfer Value to £100,000.

Based on the above amendments, the Developer security will also be revised accordingly. However, as developer securities are already in place for all of the projects in the second transitional Tender Round, we will only require a change at the point where the current security arrangements expire.

The updated Cost Recovery Methodology for the second transitional Tender Round 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 Marcia King (Senior Manager Tenders & Transactions, Offshore Transmission) at marcia.king@ofgem.gov.uk.

Yours sincerely,

Steve Beel

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