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for energy consumers

Company Secretary
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Dear Company Secretary,

Approval of statement pursuant to paragraph 6 of Special Condition 8C (Basis of transmission owner charges) of SP Transmission Ltd's electricity transmission licence.

This letter sets out the basis for our decision to approve changes to the charging statement for SP Transmission Ltd (SPT).

Background

Under its Electricity Transmission Licence, SPT must have a statement, approved by the Authority, showing how they will charge National Grid Electricity Transmission plc (NGET) for the services provided. The services comprise:

- Transmission Owner services
- connections to the licensees' transmission system
- outage charges

Under Special Condition 8C(5) of its Electricity Transmission Licence (the Licence), SPT must revise its statement at least once a year to ensure that it continues to be accurate in all material respects. Special Condition 8C(6) of the Licences further requires that any changes which are made are approved by the Authority.

SPT originally submitted its statement for approval by the Authority on 31 March 2014. We published SPT's statement together with a statement submitted by Scottish Hydro Electric Transmission plc (SHE Transmission) on 7 August 2014 and invited wider views on the proposed changes by 5 September 2014¹.

¹ <https://www.ofgem.gov.uk/publications-and-updates/changes-statements-basis-transmission-owner-charges-201415-%E2%80%93-your-views-needed>

One respondent to our consultation queried significant differences in indicative charges between SPT and SHE Transmission (jointly, the Scottish TOs). SPT have since resubmitted their statement with revised indicative charges. The resubmitted statement is published on our website beside this decision.

SPT's proposed changes

In summary, the changes proposed by SPT are as follows:

- updated terminology to improve the consistency between the statements of SPT and SHE Transmission. This will allow network users to more easily compare charges in different transmission areas.
- changed daily charge-out rates for different grades of staff and minor revisions to the types of applications that will be charged fees.
- updated indicative costs for their connection assets.

Response to consultation

We received one response to our consultation from Vattenfall Wind Power. They raised concerns about the level of indicative charges in both the Scottish TO's statements, which they consider may set a high benchmark for connection charges, ultimately resulting in over charging. They also queried significant differences between the Scottish TOs' indicative charges for certain connection assets.

Our views

We welcome Vattenfall's response and discussed the statement with SPT and SHE Transmission. Following this discussion SPT updated their indicative charges to better reflect changes to their costs since the start of the RIIO T1 price control, in April 2013.

The differences between the Scottish TOs' indicative charges are now smaller, but some significant differences remain for certain items. We also note that some of the differences between charges are not what we would intuitively expect. For example, SHE Transmission's indicative charges are similar for a 120MVA transformer and a 240MVA transformer, but SPT's indicative charges show a large difference between the charges for these two items.

We understand that these apparent anomalies arise because the Scottish TOs base their indicative charges on actual historical charges. Often, there are only a relatively small number of instances where the asset has actually been installed on which to base the indicative charge. In addition, there can be significant variances in costs for the installation of a given transmission asset for factors such as civil works and access costs. There may also be small differences in the costs that each TO includes in the indicative charge.

Given the issues described above, it is clear that the Scottish TOs' approach to calculating indicative charges could be improved upon. We, therefore, expect them to work together to develop a more consistent approach, with the aim of providing more robust indicative charges. However, we are satisfied that the indicative charges given in both statements are within the broad range that we would expect.

We also note that final connection charges are based on actual costs and that these are independently audited. Therefore, we do not share Vattenfall's concerns that the Scottish TOs' indicative charges may result in over charging. However, we do wish to make clear that the charges in the Scottish TOs' statements are indicative only. They are not approved charges and they should not be treated or referred to as such.

Authority's decision

We have considered whether the proposed changes contained in the statement submitted by SPT are consistent with the requirements of Special Condition 8C(5) of the License and SPT's wider licence and statutory obligations. We have also had regard to our principal objective and general duties in considering the statement. We are satisfied that approval of the changes to the statement is consistent with these.

Pursuant to Special Condition 8C(6), the Authority hereby approves the revisions contained in the statement annexed to this letter.

Yours sincerely,

Kersti Berge
Partner, Transmission
Duly authorised on behalf of the Authority