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Offshore
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107 West Regent Street
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Iain Cameron
General Manager



15 June 2015

Our Reference BTSS1506151

Dear Yvonne

Blue Transmission Sheringham Shoal Limited ("the Company") - Notification of Contingent Event in the financial year ended 31 March 2015

In accordance with the Company's offshore electricity transmission licence ("the Licence" or "Licence") paragraph 34 of Amended Standard Condition E12 - J3: Restriction of transmission revenue: Allowed Pass-through Items, I am writing to notify the Authority that, in respect of relevant year ended 31 March 2015, the Company has incurred costs in connection with measures to achieve first compliance with Section K Paragraph 7.1 of the System Operator-Transmission Owner Code ("STC") as a result of compliance with Section D, Part 1, paragraph 2.2.6.1 of the STC, which is a Contingent Event as defined in the Company's Licence.

(a) Details of the relevant contingent event to which the notice relates

- i) The relevant Contingent Event as defined in paragraph 44 of Amended Standard Condition E12 – J3 of the Licence is:

"the licensee incurring costs in connection with measures to achieve first compliance with Section K Paragraph 7.1 of the STC as a result of compliance with Section D, Part 1, paragraph 2.2.6.1 of the STC."

- ii) In line with Ofgem's Derogation letter dated 20th June 2014 construction works for the Contingent Event has commenced and two harmonic filters are being installed in order to achieve compliance Section K Paragraph 7.1 of the STC as a result of compliance with Section D, Part 1, paragraph 2.2.6.1 of the STC. Completion is expected towards the end of 2015.

- iii) The costs that the Company has incurred in the financial year ended 31 March 2015 as a result of the Contingent Event are in relation to the following services and suppliers:

- (1) Project management & technical advice in relation to the Company's due diligence and health and safety duties for the design and construction of the harmonic filters



- (2) Legal advice in relation to the legal agreement required to transfer the harmonic filters to the Company [REDACTED]
- (3) Additional internal resources in relation to overarching control and strategic decision making on behalf of the Company [REDACTED]

(b) the extent to which, if at all, the licensee has claimed or intends to claim for any costs and/or expenses arising out of or relating to the relevant contingent event under other routes of recourse, including but not limited to commercial solutions available to it, including any warranties and/or indemnities

- i) The Sale and Purchase Agreement (SPA) between [REDACTED] and the Company dated 27 June 2013 contains a specific clause relating to the implementation of measures to achieve compliance with Section K of the STC. The relevant clause 14.11 (see extract below) makes it clear that [REDACTED] is responsible for addressing, at its own cost and risk, all issues that arise that prevent compliance with the Section K of the STC, including the installation and commissioning of harmonic filters. However, under the SPA, the Company has no recourse to [REDACTED] for the Company's costs incurred in relation to the installation and commissioning of harmonic filters. Our understanding is that the specific purpose of the Contingent Event Adjustment ("CEA") provision contained in the Licence was to allow for the recovery of reasonable costs incurred by the Company which were directly attributable to achieving first compliance with Section K Paragraph 7.1 of the STC as a result of compliance with Section D, Part 1, paragraph 2.2.6.1 of the STC and that were not incurred or otherwise recoverable from [REDACTED] under the SPA.

SPA Extract - "Harmonic Voltage Distortion"

14.11 The Vendor shall undertake, at its own cost, the monitoring and measurements necessary to determine whether harmonic voltage distortion caused by the Windfarm and/or the Offshore Transmission System is compliant with ENA Engineering Recommendation G5/4-1 "Planning Levels for Harmonic Voltage Distortion and the Connection of nonlinear Equipment to Transmission Systems and Distribution Networks in the United Kingdom" either prior to or as soon as practicable after Completion. During the period of monitoring and measurement of harmonic voltage distortion, the Vendor shall:

- 14.11.1 keep the Purchaser regularly informed of any material developments;
- 14.11.2 permit the Purchaser, or its representatives, to observe procedures and to provide input (but shall not be required to act upon any input so provided);
- 14.11.3 address, at its own cost and risk, all issues that arise that prevent compliance with ENA Engineering Recommendation G5/4-1 (including, if necessary, the purchase of land and the installation and commissioning of harmonic filters); and



14.11.4 indemnify the Purchaser against any Losses incurred by the Purchaser resulting from any temporary shut-down of the Offshore Transmission System requested by the Vendor for the purpose of resolving any harmonic voltage distortion compliance issues.

For the purpose any Claim under this clause 14.11, paragraphs 1 and 6 Schedule 7 (Limitations on Liability) shall not apply.”

ii) The Company has no warranties or indemnities that may be routes for recourse to claim for cost recovery in relation to the relevant Contingent Event.

(c) the amount of any change in costs and/or expenses that can be demonstrated by the licensee to have been or that will be incurred or suffered in connection with the relevant contingent event and how the amount of these costs and/or expenses has been calculated

Costs and expenses relating to relevant Contingent Event for the year ended 31 March 2015

Supplier	Time Cost £	Expenses £	Total Net £
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total	[REDACTED]	[REDACTED]	[REDACTED]

i) In the financial year ended 31 March 2015, the Company incurred £ [REDACTED] excluding VAT in connection with the relevant Contingent Event. The table above shows the breakdown of those costs and expenses incurred. The Company has been invoiced by the suppliers identified in the above table in the amounts shown (excl. VAT) and has invoices to support all of these costs and expenses, which are available on request.

ii) In addition to the costs incurred in the financial year ended 31 March 2015 (FY 2014/15), the Company has already incurred further costs in the current financial year (year ending 31 March 2016 or FY 2015/16) and expects that further expenditure will be incurred during the current financial year and possibly future financial years. Therefore, whilst the Company is only seeking to recover costs and expenses incurred in FY 2014/15 under this notice, we will submit a further notification to Ofgem for the recovery of all reasonable costs and expenses incurred that are directly attributable to this Contingent Event in FY 2015/16 and the Company may submit an additional notice or notices in respect of subsequent financial years.

(d) the amount of any allowed revenue adjustment proposed as a consequence of the relevant contingent event, whether this allowed revenue adjustment is required for

a one-off cost or for ongoing costs and how this allowed revenue adjustment has been calculated

- i) The Company proposes a one-off revenue adjustment of £[REDACTED] to be applied to the Company's allowed revenue in FY 2015/16 (Relevant Year t=3) and invoiced to National Grid as a one-off payment immediately following the Authority's approval of the one-off revenue adjustment, payable within 30 days in accordance with clause 4.3.2 of the Section E (Billing and Payment) of the STC.

The proposed one-off revenue adjustment is calculated as the sum of the costs incurred by the Company as set out in the summary table in section c) above.

(e) any other analysis or information, which the licensee considers sufficient to enable the Authority and the relevant parties to fully assess the relevant contingent event to which the notice relates.

- i) The Company would be pleased to provide copies of contracts and/or invoices with supporting information if requested.

Confidentiality

Pursuant to paragraph 392 of Amended Standard Condition E12-J3 of the Licence, we identify the following as information in this Notice of a confidential nature:

- All cost information stated in this notice.
- The identity of the parties with whom the Company has incurred the costs stated in this notice.

We would be grateful if the Authority would acknowledge receipt of this notification and provide us with guidance on what further information the Authority may require.

I am available on [REDACTED] if you would like to contact me directly to discuss this matter.

Yours sincerely,



Iain Cameron

General Manager

Blue Transmission Sheringham Shoal Limited