

# STATEMENT OF WODS TRANSMISSION PLC

## BASIS OF TRANSMISSION OWNER CHARGES

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**Effective 20 August 2015**

The Gas and Electricity Markets Authority has approved this statement on 20 August 2015.

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**STATEMENT OF**

**WODS TRANSMISSION PLC**

**BASIS OF TRANSMISSION OWNER CHARGES**

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This statement is produced by WoDS Transmission plc (WoDST), the Offshore Transmission Owner (OFTO), which sets out the basis of charges for the provision by WoDST to National Grid Electricity Transmission plc (NGET) (the GB System Operator, GBSO) of transmission services as specified in the Offshore Electricity Transmission Licence and System Operator Transmission Owner Code (STC).

This Statement is effective from 20 August 2015.

The charges shall consist of TO General System Charges, TO Site-Specific Charges, Offshore Transmission Owner of Last Resort Charges and Other Charges as set out in this statement.

## Introduction

WoDST is obliged, under Amended Standard Condition E12 – J9 (Basis of Transmission Owner Charges) of its Offshore Electricity Transmission Licence, to prepare a statement approved by the Authority setting out the basis upon which charges will be made for:

- a) provision of transmission owner services;
- b) connection to WoDST's transmission system in such form and detail as shall be necessary to enable NGET to make a reasonable estimate of the charges to which it would become liable for the provision of WoDST's services; and
- c) outage changes.

Amended Standard Condition E12 – J9 requires that the statement shall in respect of connection to the licensee's (WoDST) transmission system include:

- a) a schedule listing those items (including the carrying out of works and the provision and installation of electric lines or electrical plant or meters) of significant cost liable to be required for the purpose of connection (at entry or exit points) to the licensee's transmission system for which site specific charges may be made or levied and including (where practicable) indicative charges for each such item and (in other cases) an explanation of the methods by which and the principles on which such charges will be calculated;*
- b) the methods by which and the principles on which site specific charges will be made in circumstances where the electric lines or electrical plant to be installed are (at the licensee's discretion) of greater size or capacity than that required;*
- c) the methods by which and the principles on which any charges (including any capitalised charge) will be made for maintenance, replacement and repair required of electric lines, electrical plant or meters provided and installed for making a connection to the licensee's transmission system;*
- d) the methods by which and the principles on which any charges will be made for disconnection from the licensee's transmission system and the removal of electrical plant, electric lines and ancillary meters following disconnection; and*
- e) such other matters as shall be specified in directions issued by the Authority from time to time for the purpose of this Amended Standard condition E12 – J9.*

Site specific charges for those items referred to above shall be set at a level which will enable the licensee to recover:

- a) the appropriate proportion of the costs directly or indirectly incurred in carrying out any works, the extension or reinforcement of the licensee's transmission system or the provision and installation, maintenance, replacement and repair or (as the case may be) removal following disconnection of any electric lines, electrical plant, meters or other items; and*
- b) a reasonable rate of return on the capital represented by such costs.*

Amended Standard Condition E12-J9 permits and, where appropriate, requires that:

- a) WoDST may periodically revise this statement, and shall at least once in every year this Licence is in force make any necessary revisions to this statement in order that the information set out in the statement shall continue to be accurate in all material respects, as required by clause 5 of Amended Standard Condition E12-J9;
- b) WoDST is required to send a copy of this statement and each revision of this statement to the Authority. Each revision to this statement requires the approval by the Authority and shall not become effective until approved by the Authority, as required by clause 6 of Amended Standard Condition E12-J9; and
- c) WoDST is required to give or send a copy of this statement to any person who requests a copy. WoDST may make a charge for any statement of an amount reflecting WoDST's reasonable costs of providing such a statement which shall not exceed the maximum amount specified in any directions issued by the Authority as required by clauses 7 and 8 of Amended Standard Condition E12-J9.

## Principles

This statement sets out WoDST's charges for the provision of transmission services to NGET, in its capacity as National Electricity Transmission System Operator (NETSO).

The STC permits WoDST to charge for its services under a number of headings: TO General System Charges; TO Site-Specific charges; Offshore Transmission Owner of Last Resort Charges and Other Charges.

WoDST must identify and classify its assets into one of two charging categories – TO General System Charges and TO Site-Specific Charges. WoDST has identified all of its assets as being attributable to the **TO General System Charges** category and therefore WoDST does not have any **TO Site-Specific Charges**. The TO General System charges are designed to recover the cost of the OFTO assets acquired by WoDST over the 20 year life of the revenue entitlement under the Offshore Electricity Transmission Licence.

If WoDST is given a Direction under Standard Condition E21 (Offshore Transmission Owner of Last Resort) of the Offshore Electricity Transmission Licence, then it is eligible to charge for services rendered in accordance with these conditions. The principles for charging **Offshore Transmission Owner of Last Resort Charges** are set out later in this statement – see “Offshore Transmission Owner of Last Resort Charges” later in this statement.

WoDST may at the request of NGET carry out other work, which is not covered by the TO General System Charges or Offshore Transmission Owner of Last Resort Charges, including, for example, outage rescheduling. The principles for calculating such **Other Charges** are also set out in this statement – see “Other Charges – Excluded Services Charges” later in this statement.

The **TO General System Charges** are charges that relate to the recovery of costs incurred in respect of WoDST's entire transmission infrastructure from the 33kV collector cable connections at the transformer LV terminals located on the offshore platform through to the 400kv busbar clamping points which connects to NGET's onshore transmission network at Heysham. The principles adopted in determining the TO General System Charges are explained in the section “Transmission Owner Revenue Restriction” outlined later in this statement.

The methodology for calculating the TO General System Charges, TO Site-Specific Charges, the Offshore Transmission Owner of Last Resort Charges and Other Charges is set out on the following pages.

## **Transmission Owner Revenue Restriction (TO General System Charges)**

The Offshore Electricity Transmission Licence sets a restriction on WoDST's **TO General System Charges**, as described below.

Amended Standard Condition E12 – J2 (Restriction of Transmission Revenue: Revenue from Transmission Owner Services) of WoDST's Offshore Electricity Transmission Licence establishes the charge restriction that determines the allowed transmission owner revenue ( $OFTO_t$ ) that WoDST may earn from its transmission owner services.

The formulae for the calculation of  $OFTO_t$  are set out in WoDST's Licence. Initial values for the input parameters required to calculate charges for the 2015/16 financial year (year  $t=1$ ) are as specified in Appendix 1.

In the event of additional capacity being required from WoDST the value of  $OFTO_t$  will be adjusted in accordance with the formulae set out in the Licence (Amended Standard Condition E12 - J4 (Restriction of Transmission Revenue: Annual Revenue Adjustments) and Standard Condition E17 (Obligations in relation to offers for connection etc.)).

## **Transmission Owner Revenue Restriction (TO Site-Specific Charges)**

WoDST does not expect to have any TO Site-Specific Charges.

TO Site-Specific Charges relate to costs associated with connections that aren't recovered through TO General System Charges or Other Charges. WoDST expects that the majority of the costs incurred in relation to connections would be recovered through TO General System Charges, with some related charges recovered as Other Charges. As a consequence, WoDST is unlikely to invoice NGET for any TO Site-Specific Charges.

## **Offshore Transmission Owner of Last Resort Charges**

In the event that WoDST is given a notice by the Authority under Standard Condition E21 (Offshore Transmission Owner of Last Resort), then WoDST would be permitted to charge Offshore Transmission Owner of Last Resort Charges for transmission services provided in accordance with the direction of the Authority. These charges would be as set out and specified in a direction issued by the Authority to the OFTO in accordance with Standard Condition E21.

## **Other Charges – Excluded Services Charges**

Amended Standard Condition E12 – J10 (Excluded Services) permits WoDST to charge NGET for other services provided in addition to those services provided in WoDST's capacity as Offshore Transmission Owner. No charges can be made to NGET for any services in so far as it relates to the provision of services remunerated under charges for offshore transmission owner services in accordance with Amended Standard Condition E12 - J9 (Basis of Transmission Owner Charges). The basis for determining transmission owner charges is described above under the section "Transmission Owner Revenue Restriction".

Other charges - excluded services charges are permitted to be made in respect of:

- 1) The net costs reasonably incurred by WoDST arising from any outage change at NGET's request;
- 2) Costs arising from the processing of connection applications that might result in WoDST's providing additional transmission system capability together with any feasibility studies as requested by NGET; and
- 3) Costs of relocating electrical plant, wires and cables and associated works arising from a statutory obligation (other than under section 9 (2) of the Electricity Act 1989 imposed on the licensee).

The Other Charges relating to transmission services that can be levied on NGET by WoDST in any year are equal to the sum of the charges listed below net of any Interruption Charges (as defined in the STC) charged by NGET to WoDST.

### **a) Application fees**

WoDST will charge NGET an application fee as set out in Appendix 2 at the time of each application for a new or modified connection to WoDST's transmission system. The application fee is intended to cover the actual engineering costs and other expenses incurred by WoDST in preparing an offer of terms, and are dependent upon the size, type and location of the proposed new or modified connection.

WoDST will monitor and record the actual costs incurred in preparing an offer of terms and when the work has been completed, WoDST will compare the actual costs incurred to the application fees charged to NGET. In the event that there is a difference between the application fee and costs incurred this amount will be charged or refunded to NGET as appropriate.



**a) Application fees (continued)**

NGET will be charged for the actual costs incurred by WoDST in carrying out this work, based on WoDST's market based charge-out rates as detailed in appendix 3 to this statement.

Should NGET notify WoDST of changes in the planning assumptions after receipt of an application fee, WoDST may levy an additional charge. In any event, whether an additional charge is levied or not, the actual costs incurred in preparing a revised connection will be charged to NGET through the mechanism described above when the offer is completed.

In exceptional circumstances, NGET may make an application which involves significant costs over and above those that would be normally expected (e.g. substantial system studies, specialist surveys, investigations) to process an offer of terms then WoDST reserves the right to vary the applicable fee.

If, following completion of the works to which the application related, the incremental capacity incentive adjustment term ( $ICA_t$ ) in Amended Standard Condition E12 - J4 (Restriction of Transmission Revenue: Annual Revenue Adjustments) ("incremental capacity incentive") is adjusted so that the cost of the application is recovered through the TO General System Charges, then the application fee will be refunded to NGET.

**b) Feasibility Study Fees**

If NGET requests a feasibility study in connection with alterations to or extension of WoDST's network, a fee (the "advance fee") will become payable in advance of any engineering and out-of pocket expenses incurred by WoDST. The advance fee payable by NGET will vary according to the size of the study and the amount of work expected and will be charged on the basis of the expected cost of completing the feasibility study.

Actual costs incurred will be based on the WoDST's market based charge-out rates as shown in Appendix 3 and any other external costs incurred by WoDST (e.g. travel & subsistence costs, specialist surveys, external consultants etc.) in completing the study. Where the actual engineering and out-of pocket expenses incurred by WoDST exceed the advance fee, WoDST will issue an invoice for the excess. Conversely, where WoDST does not use the whole of the advance, the balance will be refunded.

**c) Abortive works charges**

If as a result of a modification application, received after commencement of works, WoDST is required to make amendment to the transmission construction works and WoDST has previously carried out some or all of the works that are no longer required, then these works are defined as "Abortive works". In such circumstances, NGET shall be required to make a payment to WoDST in respect of all fees, expenses and costs of whatever nature reasonably and properly incurred by WoDST in respect of these Abortive works for which WoDST is responsible or may otherwise become liable in respect of the Abortive Works.

**c) Abortive works charges (continued)**

Invoices will be raised on NGET in respect of all reasonably incurred costs attributable to the Abortive works.

If the Abortive works result in an adjustment to the incremental capacity so that the cost, or part thereof, of the Abortive works is recovered through the TO General System Charges, then the cost, or part thereof, previously charged to NGET in respect of the Abortive works will be refunded.

**d) De-energisation and disconnection charges**

Where NGET wishes a supply to be permanently de-energised, a minimum of two business days' notice (or such other period as may be specified in the TO Construction Agreement and/or STC) to that effect should be given to WoDST. WoDST will then arrange to de-energise the supply. An additional charge will be made for this service if undertaken outside normal working hours in order to recover any additional costs for call-out or out-of-hours working.

Temporary de-energisation (and subsequent re-energisation) resulting from the failure by NGET to comply with the terms of their relevant agreement, or carried out at the request of NGET, will be charged for by WoDST to NGET based on the costs incurred by WoDST.

If NGET requests disconnection, this must be requested in writing.

**e) Charges for Outage Changes**

Where prearranged outages are rearranged at NGET's request or where NGET require additional services for planned or unplanned outages and these services are over and above the normal service provided under WoDST's Operation and Maintenance Service Agreement (relevant details of which will be disclosed to NGET on request), then additional charges will be made in respect of these additional services.

The additional charges levied on NGET will reflect the reasonably incurred net costs incurred by WoDST in accommodating NGET's request and will be determined in accordance with STCP 11-3 "TO Outage Change Costing". WoDST's charges to NGET in respect of rearranged outages and/or additional services will include all net costs incurred by WoDST and will relate directly to the activities required by NGET. Where appropriate these costs will be based on the market based charge-out rates as shown in appendix 3 to this statement.

**e) Charges for Outage Changes (continued)**

These costs include, but are not limited to:

- Demobilisation and remobilisation costs;
- Costs (including where appropriate, liquidated damages) of standing down or mobilising contractors until the rescheduled outage starts. Costs will be derived from contractors' invoices and, in the case of liquidated damages, from the relevant agreement(s);
- Costs of overtime working to reduce outage time so as to reduce NGET's net costs in maintaining system security. Cost will be based on overtime hours worked on the particular outage;
- Additional waiting on weather costs for carrying out work at different times of year;
- Costs of installing additional equipment, as required, such as bypass arrangements;
- Revenue deductions (or increases) through the incentive mechanism that the OFTO may be subject to as a result of the Outage Changes.

Where an outage is rearranged at NGET's request, WoDST will use all reasonable endeavours to minimise the charge to NGET by redeploying staff and/or contractors onto other work where this is reasonably possible.

**f) Miscellaneous**

If NGET should request WoDST to carry out any other activity which is not covered by the TO General System Charges, TO Site-Specific Charges, Offshore Transmission Owner of Last Resort Charges, Interruption Charges, or the Other Charges specified above, WoDST will provide terms for the requested work.

Any other service of a type not already referred to within this section where such a service is not part of the normal part of the offshore transmission business will be charged for based on WoDST's market based charge out rates shown in appendix 3 together with any other external costs incurred.

## GLOSSARY

Allowed transmission owner revenue (OFTO <sub>t</sub> )	The maximum revenue that WoDST is permitted to earn from the provision of transmission owner services, as determined by WoDST's Offshore Electricity Transmission Licence
Authority	The Gas and Electricity Markets Authority (Ofgem)
WoDST	WoDS Transmission plc, the owner of the West of Duddon Sands offshore transmission system
kV	A unit equal to one thousand volts
NGET	National Grid Electricity plc, the GB system operator
Retail Price Index	Means the general index of retail prices published by the Office for National Statistics each month in respect of all items
Offshore Electricity Transmission Licence	A Licence issued by the Authority which permits an OFTO to participate in the transmission of electricity.
STC	System Operator Transmission Owner Code, which defines the high-level relationship between the National Electricity Transmission System Operator (NGET) and Transmission Owners
STCP	System Operator Transmission Owner Code procedures
TO Construction Agreement	An agreement between NGET and WoDST pursuant to the STC
Transmission owner or TO	WoDST is the transmission owner of the West of Duddon Sands offshore transmission system and is responsible for delivering transmission owner services in accordance with the requirements of its Offshore Electricity Transmission Licence and System Operator Transmission Code
Transmission system	Those assets that comprise WoDST's entire transmission infrastructure from the 33kV collector cable connections at the transformer LV terminals located on the offshore platform through to the 400kV busbar clamping points which connects to NGET's onshore transmission network at Heysham
OFTO	Offshore Transmission Owner

## APPENDIX 1

### Initial values of charging parameters

The parameters outlined in the table below are set out in the Amended Standard Conditions of the Licence, specifically in:

E12 - J1 (Restriction of Transmission Revenue: Definitions)

E12 - J2 (Restriction of Transmission Revenue: Revenue from Transmission Owner Services)

E12 - J3 (Restriction of Transmission Revenue: Allowed Pass-through Items); and

E12 - J4 (Restriction of Transmission Revenue: Annual Revenue Adjustments).

Parameter	Estimated Initial Value
Tender Relevant Year	Financial year ending 31 March 2016 (this is $t=1$ )
Commencement Relevant Year	Financial year ending 31 March 2016 (this is $t=1$ )
$TRS_t$ (tender revenue stream)	£19,690.91k (to be adjusted by MRA in accordance with Amended Standard Condition E12-A2)
$MRA_t$ (market rate revenue adjustment)	The MRA value will be determined at financial close and will be dependent on market rates on the day of closing.
$PR_t$ (proportion of revenue term) (adjusts OFTO revenue for partial years)	Asset transfer date: 25 August 2015 Start of commencement relevant yr: 1 April 2015 No of days from start of commencement relevant year to asset transfer date: 146 $PR_1 = 1 - (146/365.25)$ $PR_1 = 0.6002738$ $PR_t = 1$ for $t > 1$
$RIT_t$ (revenue indexation adjustment term)	$RIT_1 = 1$ (since $t=1$ is tender relevant year) $RIT_2 = RPI(\text{September})_{t-1} / RPI(\text{base date})$  Where $RPI(\text{September})_t$ means the Retail Price Index number for the month of September relevant year $t$ ; and $RPI(\text{base date})$ means the Retail Price Index number for the month in which the base date occurred.
	<b>For the avoidance of doubt:</b> $RIT_1$ applies to charges in the year from 1 April

<b>Parameter</b>	<b>Estimated Initial Value</b>
	2015 to 31 March 2016; and RIT <sub>2</sub> applies to charges in the year from 1 April 2016 to 31 March 2017.
RIT <sub>t</sub> (revenue indexation adjustment term) (continued)	<b>Note:</b> Base date means the date at which the transmission asset prices are based. The first revenue indexation adjustment for relevant year t shall only occur when in relevant year t-1 the month of September has occurred since the base date.
LF <sub>t</sub> (Licence fee cost adjustment)	LF <sub>1</sub> = 0  (Zero Licence fees to Transmission Owners in most circumstances; see clause 3.4 of Ofgem document "Offshore Transmission Tender Guidance Note: Generic Offshore Transmission Owner (OFTO) Licence (3 September 2010)").
RB <sub>t</sub> (Network rates)	RB <sub>1</sub> = £473,496 being the network rates attributable to WoDST's ownership period and based on a rateable value of £1,600,000 as provided by the valuation office at 31 March 2015 and applying the non-domestic rate multiplier of 49.3p in the £.
CEL <sub>t</sub> (Crown Estate lease cost adjustment)	CEL <sub>1</sub> = £48,654 CEL <sub>t</sub> = £nil for t>1
DC <sub>t</sub> (Decommissioning Cost Adjustment)	DC <sub>1</sub> = 0
IAT <sub>t</sub> (Income adjusting event revenue adjustment)	IAT <sub>1</sub> = 0
TPD <sub>t</sub> (Temporary physical disconnection payment)	TPD <sub>1</sub> = 0
TCA <sub>t</sub> (Tender fee cost adjustment)	TCA <sub>1</sub> = £2,501,914  Comprising: PQ Payment of £5,000 ITT Payment of £12,500 PB Payment of £250,000 Successful Bidder Payment of £2,100,000 Cost Assessment Payment of £134,414
MCA <sub>t</sub> (Marine and Coastal Access Act)	MCA <sub>t</sub> = 0

<b>Parameter</b>	<b>Estimated Initial Value</b>
2009 cost adjustment)	
$K_t$ (Revenue restriction correction factor)	$K_1 = 0$

Invoicing: Tender fees ( $TCA_1$ ) and Crown Estate Lease costs ( $CEL_1$ ) will be invoiced as a one-off payment within the first invoice in accordance with paragraph 4.3.2 of section E of the STC, to match the costs as they are incurred.

## APPENDIX 2

### Application fees

Connection or modification size	Application fee
0-10 MW	£112k
10-100 MW	£135k
>100 MW	To be determined in the event of such an application.

All application fees are subject to VAT at the prevailing rate.



## APPENDIX 3

### Market based charge-out rates

Grade	Rate (£/day)
General manager	2,067
Commercial director	1,696
Technical director	1,696
Finance Director	1,696
Programme / Project manager	1,325
Principal engineer	1,325
Engineer	1,060
Financial Controller	1,060
Administrative support	631
External charges	Cost + 6%

All fees are subject to VAT at the prevailing rate.

The grade and mix of staff/contractors used to carry out the activity being requested will be at the appropriate level associated with the work required. Where particular skills are required that are not covered by the table above, then WoDST will obtain and provide the necessary resource at the prevailing market rate.

Given the complexity of the marine environment and interaction with prevailing weather conditions, it is possible that staff/contractors that are planned to carry out a specific activity or project are prevented from doing so by inclement weather. In such circumstances, to the extent that WoDST are unable to redeploy those staff/contractors to another activity then charges based on the above charge out rates will be levied to the activity or project that gave rise to their mobilisation in the first place.