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for energy consumers

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Dear Iain

### **Determination of an allowed revenue adjustment for Blue Transmission Sheringham Shoal Limited**

This letter sets out our determination of a revenue adjustment under amended standard condition E12-J3 of the transmission licence held by Blue Transmission Sheringham Shoal Limited (BTSSL). BTSSL submitted a claim for a contingent event adjustment (CEA) on 15 June 2015 for costs incurred in financial year 2014/15 in relation to the installation of harmonic filters for the Sheringham Shoal transmission system. A redacted copy of the notice was published on the Authority's website on 24 June 2015. Having reviewed the claim against the licence criteria, we are satisfied that the full revenue adjustment claimed (£61,345.81) should be made.

### **Background**

The transmission licence granted to Blue Transmission Sheringham Shoal Limited contains a specific provision relating to a contingent event (CEA term), which provides that costs incurred by BTSSL in connection with the installation of harmonic filters, should these prove necessary to achieve compliance with the System Operator-Transmission Owner Code ('STC'), would be recoverable through the formula for allowed transmission revenue. This provision was included in the licence for the following reasons: BTSSL (as a Qualifying Bidder) were not aware (and could not reasonably be expected to have been aware) of the contingent event in preparing its ITT submission; BTSSL as a Preferred Bidder were not able to resolve or mitigate the contingent event by way of commercial agreement; the contingent event was not certain both in terms of whether it would materialise and what any associated costs may be if it did materialise; and it would have a material impact if it did materialise.

The design, commissioning and installation of the filters are being carried out by the wind farm generator at its cost; however, once the filters have been installed they will transfer into BTSSL's ownership. BTSSL has incurred project management, technical and legal costs in working alongside the generator on this task and this is the basis for their claim.

### **Licence provisions**

Condition E12-J3 of the licence provides for a revenue adjustment to be made where a contingent event has occurred. The term 'contingent event' is defined in paragraph 44 of

E12-J3 as costs incurred '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'.

Paragraph 34 of E12-J3 allows BTSSL to claim where it 'considers, and can provide supporting evidence that, in respect of relevant year t, there have been costs and/or expenses that have been or will be incurred ... in respect of any contingent event'.

Paragraph 37 requires claims to be submitted 'not later than three months after the end of the relevant year in which it [the event] occurs.' Paragraph 40 states that the Authority shall determine whether the costs or expenses were caused by the contingent event and, if so, whether the revenue adjustment would put BTSSL back into the same financial position that they would have been in if the contingent event had not taken place.

To note, an exclusion limb was also added to BTSSL's licence protecting it from penalties against the availability incentive where outages occur as a direct result of the installation of the harmonic filters as defined in the CEA.

### **Details of the claim**

The claim covers costs associated with legal advice in relation to the agreement required to transfer the harmonic filters to BTSSL, project management, technical advice, and additional resources relating to overarching control and strategic decision making on behalf of the company.

The CEA licence term refers to costs that have been or will be incurred in relation to the contingent event. This determination relates to the costs incurred in financial year 2014/15 and we have informed BTSSL that a separate claim should be submitted no later than the end of June 2016 for any costs that they incur in connection with installation of the filters in financial year 2015/16.

### **Decision**

Having reviewed all of the information provided, the Authority considers that the costs proposed are reasonable and it is satisfied, as required under the licence, that:-

- the claim was submitted within the time limit required;
- the costs/expenses were caused by the contingent event as defined;
- the amount of proposed revenue adjustment ensures that the financial position and performance of the licensee are the same as if the contingent event had not taken place; and
- the proposed revenue adjustment accounts for costs claimed under other routes of recourse.

The Authority therefore determines under paragraph 40 of Amended Standard Condition E12-J3 (Allowed pass through items) of Sheringham Shoal's offshore transmission licence that the allowed revenue adjustment (CEA<sub>t</sub>) is the value £61,345.81 and that this will, insofar as is reasonably practicable, ensure that the financial position of BTSSL is the same as if the contingent event had not occurred.

This letter also constitutes Notice for the purposes of the relevant condition.

**Stephen Beel**  
**Associate Partner, Electricity Transmission**

**Duly authorised on behalf of the**  
**Gas and Electricity Markets Authority**

**10 September 2015**