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Offshore Windfarm Developers  
and  
Offshore Transmission Owners

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Dear Colleague

**Repayment of excess funds following the aggregation of income and costs on Offshore Transmission Tender Round One (TR1)**

The recent aggregation process in relation to tender costs for Offshore Transmission Tender Round One (TR1) has identified that the total of the payments made to the Authority under the cost recovery methodology exceeds the Authority's total tender costs by £139,361. This letter sets out the Authority's decision regarding the repayment of that sum.

Following the final TR1 licence grant in December 2014 Ofgem instructed its internal auditors (Deloitte) to undertake specified procedures over TR1 Aggregation to provide an independent assessment of the allocation of costs and income in respect of TR1 and to comment on the processes and controls in place for administration of the cost recovery methodology. The internal audit work has been completed and the report was issued to the Audit and Risk Assurance Committee on 16 September 2015.

The aggregation process identified that Ofgem collected £14,084,473, which represents an excess of £139,361 above its tender costs of £13,945,112.

**Table 1 – TR1 repayment summary**

Total Income	£14,084,473
Total Costs	£13,945,112
Repayment due	£139,361

Regulation 25(5) of The Electricity (Competitive Tenders for Offshore Transmission Licences) Regulations 2010 require the Authority, as soon as reasonably practicable after the aggregation of the payments made under a tender exercise, to repay wholly or in part any payment that has been made, which exceeds the tender costs incurred, to any person who made such a payment, including any interest which may have been accrued.

The Authority considers the overpayment was made under the successful bidder fees and accordingly will repay the excess funds collected to the TR1 OFTOs. Successful bidder fees are the overwhelming majority of the total fees paid under a tender round and thus have the potential to exceed the costs of the Authority. Fees paid at the invitation to tender stage and by the preferred bidder are relatively small in comparison and have been kept to a minimum for the work involved to encourage competition. We are therefore confident that the fees collected for these stages would not exceed the actual costs.

Of the repayment, a total of £7,060 will be made directly to OFTOs where a specific over charge on the Ex-Post Cost assessment fees has been identified. The balance of £132,301 will be repaid to all 9 OFTOs in proportion to their total successful bidder fee.

The excess funds being returned also includes notional interest on the excess for the period from licence grant to the date of the return of the excess funds. The interest rate reflects the interest of 0.3% (being bank base rate minus 0.2%) provided by our bank on positive balances.

The successful bidder fee is charged by the OFTO to NGET under the Tender Cost Adjustment (TCA) term in their licence. The repayment will be made under the same provision and will be facilitated through the TNUoS charging methodology.

Under the TNUoS charging methodology, following the principles of cost reflectivity, costs relating to transmission infrastructure assets that are local to a generator will ordinarily be mainly charged to that user. For offshore transmission, this is done through the local tariffs, which are calculated by allocating components of OFTO revenue to relevant asset categories either by direct attribution or pro-rating based on asset costs.

We are aware that National Grid is currently considering how the TNUoS charging methodology could be modified to facilitate the pro-rated part of the non-forecast revenue changes to generators earlier and timing of their reflection in charges, consistent with the principles of cost reflectivity.

Should you have any questions in response to this letter, please email them to Kate Kendall, Head of Commercial and Investment, Electricity Transmission (Kate.Kendall@Ofgem.gov.uk).

Yours faithfully

Stephen Beel  
Associate Partner, Electricity Transmission