

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 Two (TR2)

The recent aggregation process in relation to tender costs for Offshore Transmission Tender Round Two (TR2) 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 £417,457. This letter sets out the Authority's decision regarding the repayment of that sum.

Following the final TR2 licence grant in August 2015 Ofgem instructed its internal auditors (Deloitte) to undertake specified agreed upon procedures over TR2 Aggregation to provide an independent assessment of the allocation of costs and income in respect of TR2 and to comment on the processes and controls in place for administration of the cost recovery methodology. These agreed upon procedures have been completed and the report will be presented at the next meeting of the Audit and Risk Assurance Committee.

The aggregation process identified that Ofgem collected £14,405,957, which represents an excess of £417,457 above its tender costs of £13,988,500.

Table 1 – TR2 repayment summary

Total Income	£14,405,957
Total Costs	£13,988,500
Repayment due	£417,457

Three of the four TR2 tender exercises were conducted under the Electricity (Competitive Tenders for Offshore Transmission Licences) Regulations 2010 and the fourth, Dong Energy West of Duddon Sands (UK) Limited, was conducted under the Electricity (Competitive Tenders for Offshore Transmission Licences) Regulations 2013. However, the provisions that govern the aggregation and payment of excess tender costs are identical, except in number, in both the 2010 and the 2013 Regulations.

Regulation 25(5) 2010 Regulations and Regulation 29(6) of the 2013 Regulations 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 TR2 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 £87,061 will be made directly to OFTOs where a specific over charge on the Ex-Post Cost assessment fees has been identified. The balance of £330,396 will be repaid to all 4 OFTOs in proportion to their total successful bidder fee.

The excess funds being returned will also include 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 OFTO charges NGET for the successful bidder fee 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 payment of the pro-rated part of the non-forecast revenue changes to generators earlier and to reflect the timing of the payments in the charges, consistent with the principles of cost reflectivity.

Should you have any questions in response to this letter, please email them to Ilona Groenewald, Competitive Networks (Ilona.Groenewald@Ofgem.gov.uk).

Yours faithfully

Stephen Beel
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