

Offshore Windfarm Developers
and
Offshore Transmission Owners

Direct Dial: 0203 263 9937
Email: Akshay.Kaul@ofgem.gov.uk

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Dear Colleague

Repayment of excess funds following the aggregation of income and costs on Offshore Transmission Tender Round Three (TR3)

The recent aggregation process in relation to tender costs for Offshore Transmission Tender Round Three (TR3) 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 £1,903,911. This letter sets out the Authority's decision regarding the repayment of that sum.

Following the final TR3 licence grant in September 2016 Ofgem instructed its internal auditors (Deloitte) to undertake specified agreed upon procedures over TR3 Aggregation to provide an independent assessment of the allocation of costs and income in respect of TR3 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 £5,894,874, which represents an excess of £1,903,911 above its tender costs of £3,990,963.

Table 1 – TR3 repayment summary

Total Income	£5,894,874
Total Costs	£3,990,963
Repayment due	£1,903,911

Regulation 29(6) of The Electricity (Competitive Tenders for Offshore Transmission Licences) Regulations 2013 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 TR3 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.

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 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, Commercial Networks (Ilona.Groenewald@Ofgem.gov.uk).

Yours faithfully

Akshay Kaul
Partner, Commercial Networks