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Date: 20 November 2015

### **Proposed changes to the way Statements of the Basis for Transmission Owner Charges are produced and Statutory Consultation on modifying Special Condition 8C: Basis of transmission owner charges**

We are inviting views on proposed changes to the way Scottish Hydro Electric Transmission plc (SHE Transmission)'s and SP Transmission plc (SPT)'s Statements of the Basis for Transmission Owner Charges are produced.

The statements show the basis on which SHE Transmission and SPT (collectively the Scottish TOs) will charge National Grid Electricity Transmission plc (NGET) for the services provided. The statements are revised annually.

Some of the proposed changes would require modifications to the electricity Transmission Licences held by SHE Transmission and SPT. In our view, these changes are not extensive. We have therefore issued a Statutory Consultation on the proposed licence changes. We welcome your views on all aspects of the proposed changes.

#### **Background**

SHE Transmission and SPT own the high-voltage transmission networks in the north and south of Scotland respectively. They provide services to NGET, the system operator for the National Electricity Transmission System, who provides transmission services to users of the electricity transmission network. The Scottish TOs charge NGET for these services and NGET passes these charges on to users.

Under their electricity Transmission Licences (the Licences), SHE Transmission and SPT must produce a statement, approved by the Authority, showing how they will charge NGET for the services provided. The statements can be used by NGET or parties seeking to connect to the Scottish TOs' transmission systems to estimate the charges they may be subject to.

The statements cover charges for:

- Transmission Owner (TO) services
- connections to the licensees' transmission system
- outage charges

Connection charges are bespoke, ie they are based on the actual costs of a given connection. Therefore, the statements only provide indicative charges for connection assets. They enable parties seeking to connect to the transmission system to estimate the possible connection charge.

Under Special Condition (SpC) 8C(5) of the Licences, SHE Transmission and SPT must revise these statements at least once a year to ensure that the information in them is still accurate. SpC 8C(6) of the Licences further requires that the Authority approves any changes.

Whether we approve the Scottish TOs' statements depends on whether they accurately reflect how the TOs charge for the services described. This does not constitute approval of the TOs' actual charges for services which are bespoke.

In response to our consultation on the 2014/15 statements, stakeholders were concerned about differences between the indicative charges for SHE Transmission and SPT. Since then, the two companies have worked with NGET to develop a more consistent approach to calculating their indicative charges for connection assets. This is reflected in revised indicative charges for connection assets in the 2015/16 charging statements together with notes explaining what the indicative charges include.<sup>1</sup>

### **Proposed improvements**

We would like to improve the process for producing the annual TO charging statements in the following ways:

- *Greater clarity on what we approve*  
In our 2014/15 approval letter, to reflect a consultation response, we clarified that our approval of the charging statements does not constitute approval of the TOs' charges, as mentioned above. However, we recognise that the wording in the TOs' SpC 8C may not be clear enough about this. We would like to amend the Condition to be clearer by saying that we approve *the form* of the charging statements, and any changes to the form (and therefore not the full contents). Approving the form of the charging statements is in line with our approach to the electricity distribution charging statements.

The statutory consultation Notice<sup>2</sup> accompanying this letter provides an overview of the proposed modifications to the licence that are required to make this change and sets out our proposed licence drafting (in Appendix A of the Notice). The relevant licence holders affected are described in Appendix B of the Notice.

When we approved the 2015/16 TO charging statements, this included approval of the form of those statements. Our intention is that the current form of those statements would become the approved form for the purposes of this licence condition. Any changes the TOs intend to make to the form of future statements would need to be approved by us. We welcome your views on this proposal.

In reviewing SpC 8C, we also identified a minor housekeeping change to SpC 8C, paragraph 1.(b) to clarify the drafting. This is included in the licence drafting in Appendix A of the Notice.

- *How indicative connection charges are produced*  
We consider that the TOs are best placed to produce good-quality indicative connection charges as they know most about the factors which affect these. We believe that the improved collaboration between the Scottish TOs and NGET for the 2015/16 charging statement has already resulted in more transparent and consistent indicative charges, which has improved the process. We encourage the TOs to continue to work together to improve the consistency in indicative charges. This collaboration would be facilitated through the Charging User Group (ChUG)<sup>3</sup> (which is attended by an Ofgem representative).
- *How stakeholders can comment*  
We have consulted annually on the draft charging statements (although there is no

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<sup>1</sup> We published our decision on the 2015/16 charging statements on 15 September 2015, together with one consultation response, from NGET, at: <https://www.ofgem.gov.uk/publications-and-updates/consultation-proposed-modifications-statements-basis-transmission-owner-charges-201516>

<sup>2</sup> <https://www.ofgem.gov.uk/publications-and-updates/proposed-changes-way-statements-basis-transmission-owner-charges-are-produced-and-statutory-consultation-modifying-special-condition-8c-basis-transmission-owner-charges>

<sup>3</sup> Information about the ChUG is available at: <http://www2.nationalgrid.com/uk/industry-information/electricity-codes/standing-groups/>

requirement on us to do so) but this has yielded limited response from stakeholders. We believe that a more efficient and effective way for stakeholders to engage with their views on the statements would be to contact their NGET account manager in the first instance, and then escalate, if necessary, to the Transmission Charging Methodology Forum (TCMF)<sup>4</sup> (which is attended by an Ofgem representative) next.

We would expect the National Grid account managers and the TCMF to address users' queries and comments, and to keep the ChUG informed so it can take account of these when collaborating on producing indicative charges.

If users have made comments which may require a review of the form of the statements, we would expect National Grid account managers and the TCMF to inform the Scottish TOs, and for the Scottish TOs to submit to us these proposals for our approval. We do not propose to consult on changes to the form of the statement or the level of the charges. This is in line with our approach to the electricity distribution charging statements.

### **Alignment of requirements**

We welcomed NGET's response to this year's consultation on the TO charging statements<sup>1</sup>. Its letter listed several Connection and Use of System Code (CUSC) modifications, not yet with the Authority for decision at the time of their response, which may affect the make-up and the calculation of the charges set out in the statements. We encourage all TOs to continue to work together to ensure the statements accurately reflect future changes to the CUSC, and to consider any potential changes, as necessary, to the STC<sup>5</sup> and to STCPs<sup>6</sup>. We note that the STC still makes reference to SpC J2, which has since been replaced by SpC 8C (the Condition which sets out the requirements for the charging statements). We suggest that NGET, as the STC code administrator, facilitates the necessary updates to the STC at the earliest opportunity.

### **How to respond**

We welcome your views on the proposed changes to the process in general, and to licence condition SpC 8C in particular. In accordance with our guidance on the way we consult<sup>7</sup>, we do not think that the proposed changes to the statements are extensive. We therefore think that a consultation period of 28 calendar days is appropriate.

Please send your responses by **5pm on Monday, 21 December 2015** to [edda.dirks@ofgem.gov.uk](mailto:edda.dirks@ofgem.gov.uk), using the subject line "Response to consultation on changes to TO charging statements". We will publish responses on our website unless they are clearly marked confidential.

Please contact Edda Dirks at [edda.dirks@ofgem.gov.uk](mailto:edda.dirks@ofgem.gov.uk) if you wish to discuss the consultation or anything raised in this letter.

Yours faithfully,

**Catherine Williams**  
**Head of Commercial Regulation, Electricity Transmission**

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<sup>4</sup> Information about the TCMF is available at: <http://www2.nationalgrid.com/UK/Industry-information/System-charges/Electricity-transmission/Methodology-forum/>

<sup>5</sup> The STC is the System Operator Transmission Owner code: <http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/System-Operator-Transmission-Owner-Code/>

<sup>6</sup> The STCPs are the STC procedures, also at <http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/System-Operator-Transmission-Owner-Code/>

<sup>7</sup> <http://www.ofgem.gov.uk/About%20us/BetterReq/Documents1/guidance%20on%20ofgems%20approach%20to%20consultation.pdf>