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Offshore Transmission Owners (OFTOs), preferred bidders and other interested parties

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Date: 09 May 2019

Dear colleague,

Publication of the regulatory instructions and guidance described by Amended Standard Condition E12 – D1 of the offshore transmission licence for licences granted in tender round 5 (TR5)

On 01 March 2019 we invited feedback on our proposed regulatory instructions and guidance (RIGs) for TR5 projects. The letter set out the proposed modified RIGs, the reasons for publishing the RIGs, and specified to which licensees these RIGs will be applicable. We requested feedback to be provided by 29 March 2019. This letter contains the decision following that communication.

We have received one response to our letters inviting feedback on the proposed RIGs. The response highlighted several areas where the respondent considered further clarification in the guidance was required, and noted where it considered minor amendments to reporting worksheets were needed; these issues are outlined below and Ofgem's changes pursuant to this response are detailed in Appendix 1 to this letter.

The response requested the inclusion of guidance on the reporting of sulphur hexafluoride emissions in the Offshore Transmission Regulatory Instructions and Guidance document. We have included this guidance as suggested in the version of the TR5 RIGs published alongside this letter. These amendments do not change the reporting requirements.

The response also requested clarification on excluded services and de-minimis revenue. We have provided further clarification on this point as requested in Appendix 1 to this letter.

The response noted that the formula used to derive pass-through items needs to be adjusted to allow for contingent event revenue adjustments (CEA). Historically, this term was considered a licence specific term, and in an effort to model a "one-size-fits-all" template consistent with the generic Amended Standard Conditions in the offshore transmission licence for each tender round, we excluded this from the spreadsheets. Instead, licensees adjusted the templates to mirror their licence specific terms when applicable. However, based on the feedback and as a CEA term may be included in TR5 licences, we have included the CEA term as a pass-through item in the TR5 RIGs spreadsheets.

The response also noted several minor formatting and formula issues in the reporting worksheets. We have addressed each of these issues by amending the worksheets as described in Appendix 1.

We consider that these changes do not require further consultation as the amendments do not change the reporting requirements, and are minor amendments made solely for clarity and ease of use by licensees.

In addition to the amendments suggested in the response, we have made a few other minor amendments to the worksheets (also detailed in Appendix 1). We consider that these are minor housekeeping changes which do not require further consultation.

Therefore, the TR5 RIGs will be published with all the modifications as set out in Appendix 1.

These RIGs apply to the licensee of a licence granted in TR5. We have published the Direction modifying the RIGs and the modified RIGs alongside this letter. The effective date for the modifications to the RIGs is the date of publication. Each OFTO for TR5 projects will be obliged to report as required by the new RIGs from the date on which the RIGs are published (in respect of existing licensees) or the date of licence grant (in respect of future TR5 licensees).

The existing RIGs published on 29 March 2016 continue to apply to licensees in respect of licences granted under tender rounds 1, 2 & 3 (TR1, TR2 & TR3) and the RIGs for tender round 4 (TR4) was published today. Separate RIGs are required for different tender round projects as the licence revenue formulae can differ. We note that the items listed in Appendix 1 might also apply to the RIGs of TR1, TR2 and TR3. We intend to consider whether these issues merit modifications to the TR1, TR2 and TR3 RIGS, and consult on any proposed changes when we consult on the TR6 RIGs.

For more information regarding this letter or the Direction, please contact in the first instance Ilona Groenewald, Senior Manager, Financial Analysis, by email on Ilona.Groenewald@ofgem.gov.uk.

Yours faithfully

Jourdan Edwards
Head of the OFTO Regime

For and on behalf of the Authority

Appendix 1 Changes to the RIGs

Offshore Transmission Regulatory Instructions and Guidance: Tender Round 5

	Change (if Any)
Section 3.5 p.10	The term CEA has been added to the pass-through formula. This enables the application thereof if and when it is relevant to a specific licence.
Section 7 p.23	The section "Reporting arrangements" has been amended to include guidance on reporting on Sulphur Hexafluoride emissions. In particular, paragraph 7.11.
Section 8.6 p.26	No changes to the RIGs have been made, however further guidance was requested with regard to the following items: <ul style="list-style-type: none"> i. De-minimis revenue: In the licence, the term refers to non-network/licensed business revenue. It is often confused with meaning a minimum threshold, however, the licence does not apply a minimum threshold. For clarity, any revenue requires full disclosure, there is no minimum for reporting revenue. ii. Any items defined as Excluded Services (also referred to as directly remunerated services) require disclosure under the RIGs. Ofgem may issue a direction to a licensee if it should not be treated as such in specific circumstances.

Offshore Transmission Owner Reporting Pack for TR5 Licensees

Worksheet	Change (if Any)
Sheet '1' Cell B12	"Retail Prices Index Number (September t)" was renamed to "Retail Prices Index Number (September)t-1" to be consistent with the terminology in the licence.
Sheet '1' Rows 39-65	The cells which are now orange have been changed, from yellow. Although both yellow and orange formatting indicates input cells, the difference is that the values in the orange cells are stated in the licence.
Sheet '1' Row 22 Sheet '2' Row 24, Row 34	We have amended the Pass-Through Term formula ('2', row 24) to include for contingent event adjustments ('2', row 34). This term is not in the generic licence, it is considered to be licence specific, and has been included here as Ofgem may include a specific CEA term in all TR5 licences.
Sheet '2' Cell Z15	The proportionate revenue was importing from an incorrect cell in Sheet 1 ('1'!Y34), as it had been linked incorrectly. This has been corrected to import from '1'!Z34.
Sheet '2' Col AB	Column AB has been included in this sheet to account for instances where asset transfer occurs between 1 Jan and 31 Mar. In such cases the template needs to allow for calculation beyond year 22.
Sheet '2' Cells Z38-AB38	The formulas in these cells were corrected to more accurately reflect the formula in the licence, consistent with the rest of the cells in row 38.
Sheet '6' Cell I11	The function of the link is to import the Tender Revenue Stream in sheet 1. The cell reference has been corrected to link to cell G43 as opposed to G41 in sheet 1.
Sheet '2' Row 50	The formula for calculating the Correction factor in the licence includes a divider of 100. However, for practical reasons and ease of use, the Average Specified Interest Rate (row 54) and the Penalty Interest Rate (row 56) are presented in percentage terms instead. Therefore, in order for the same result to be achieved as intended by the licence, the divider of 100 is removed for the formula in row 50.
Sheet '7'	The formulas in columns E,F,J and K which 'look up' cell references in sheet 2 have all been updated. They have been changed from HLOOKUP functions to INDEX and MATCH formulas. This is to ensure relevant information is more accurately captured. In addition, all the licence terms in columns C,D,H and I have been matched with the correct terminology. This is to ensure the correct values are drawn in from sheet 2.
Sheet '8' Row 18	In order to correctly calculate EBIDA, the formulas in row 18 has been amended to SUM the values of rows 16 and 17.
Sheet '9' and '10'	The term "Interest Payments" have been changed to "Interest Charges" to reflect that, as revenue is reported on an accrual basis, the charges per the P&L should be reported, as opposed to payments.