



STATEMENT OF
BLUE TRANSMISSION SHERINGHAM
SHOAL LIMITED

BASIS OF TRANSMISSION OWNER
CHARGES

Effective 27 June 2013

The Gas and Electricity Markets Authority has approved this statement on 27 June 2013

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STATEMENT OF

BLUE TRANSMISSION SHERINGHAM SHOAL LIMITED

BASIS OF TRANSMISSION OWNER CHARGES

This statement is produced by Blue Transmission Sheringham Shoal Limited (BTSS), the Offshore Transmission Owner (OFTO), which sets out the basis of charges for the provision by BTSS to National Grid Electricity Transmission plc (NGET) (the GB System Operator, GBSO) of transmission services as specified in the Offshore Electricity Transmission Licence and System Operator Transmission Owner Code (STC).

This Statement is effective from 27 June 2013.

The charges shall consist of TO General System Charges, TO Site-Specific Charges, Offshore Transmission Owner of Last Resort Charges and Other Charges as set out in this statement.

Introduction

BTSS is obliged, under Amended Standard Condition E12 – J9 (Basis of Transmission Owner Charges) of its Offshore Electricity Transmission Licence, to prepare a statement approved by the Authority setting out the basis upon which charges will be made for:

- a) provision of transmission owner services;
- b) connection to BTSS's transmission system in such form and detail as shall be necessary to enable NGET to make a reasonable estimate of the charges to which it would become liable for the provision of BTSS's services; and
- c) outage changes.

Amended Standard Condition E12 – J9 requires that the statement shall in respect of connection to the licensee's (BTSS) transmission system include:

- a) *a schedule listing those items (including the carrying out of works and the provision and installation of electric lines or electrical plant or meters) of significant cost liable to be required for the purpose of connection (at entry or exit points) to the licensee's transmission system for which site specific charges may be made or levied and including (where practicable) indicative charges for each such item and (in other cases) an explanation of the methods by which and the principles on which such charges will be calculated*
- b) *the methods by which and the principles on which site specific charges will be made in circumstances where the electric lines or electrical plant to be installed are (at the licensee's discretion) of greater size or capacity than that required;*
- c) *the methods by which and the principles on which any charges (including any capitalised charge) will be made for maintenance, replacement and repair required of electric lines, electrical plant or meters provided and installed for making a connection to the licensee's transmission system;*
- d) *the methods by which and the principles on which any charges will be made for disconnection from the licensee's transmission system and the removal of electrical plant, electric lines and ancillary meters following disconnection; and*
- e) *such other matters as shall be specified in directions issued by the Authority from time to time for the purpose of this Amended Standard condition E12 – J9.*

Site specific charges for those items referred to above shall be set at a level which will enable the licensee to recover:

- a) *the appropriate proportion of the costs directly or indirectly incurred in carrying out any works, the extension or reinforcement of the licensee's transmission system or the provision and installation, maintenance, replacement and repair or (as the case may be) removal following disconnection of any electric lines, electrical plant, meters or other items; and*
- b) *a reasonable rate of return on the capital represented by such costs.*

Amended Standard Condition E12-J9 permits and, where appropriate, requires that:

- a) BTSS may periodically revise this statement, and shall at least once in every year this licence is in force make any necessary revisions to this statement in order that the information set out in the statement shall continue to be accurate in all material respects, as required by clause 5 of Amended Standard Condition E12-J9;
- b) BTSS is required to send a copy of this statement and each revision of this statement to the Authority. Each revision to this statement requires the approval by the Authority and shall not become effective until approved by the Authority, as required by clause 6 of Amended Standard Condition E12-J9;
- c) BTSS is required to give or send a copy of this statement to any person who requests a copy. BTSS may make a charge for any statement of an amount reflecting BTSS's reasonable costs of providing such a statement which shall not exceed the maximum amount specified in directions issued by the Authority for the purposes of this condition, as required by clauses 7 and 8 of Amended Standard Condition E12-J9.

Principles

This statement sets out BTSS's charges for the provision of transmission services to NGET, in its capacity as National Electricity Transmission System Operator (NETSO).

The STC permits BTSS to charge for its services under a number of headings: TO General System Charges; TO Site-Specific charges; Offshore Transmission Owner of Last Resort Charges and Other Charges.

BTSS must identify and classify its assets into one of two charging categories – TO General System Charges and TO Site-Specific Charges. BTSS has identified all of its assets as being attributable to the **TO General System Charges** category and therefore BTSS does not have any **TO Site-Specific Charges**. The TO General System charges are designed to recover the cost of the OFTO assets acquired by BTSS over the 20 year life of the revenue entitlement under the Offshore Electricity Transmission Licence.

If BTSS is given a Direction under Standard Condition E21 (Offshore Transmission Owner of Last Resort) of the Offshore Electricity Transmission Licence, then it is eligible to charge for services rendered in accordance with these conditions. The principles for charging **Offshore Transmission Owner of Last Resort Charges** are set out later in this statement – see “Offshore Transmission Owner of Last Resort Charges” later in this statement.

BTSS may at the request of NGET carry out other work, which is not covered by the TO General System Charges or Offshore Transmission Owner of Last Resort Charges, including, for example, outage rescheduling. The principles for calculating such **Other Charges** are also set out in this statement – see “Other Charges – Excluded Services Charges” later in this statement.

The **TO General System Charges** are charges that relate to the recovery of costs incurred in respect of BTSS's entire transmission infrastructure from the 33kV array cable terminations on the 33kV circuit breakers located on the offshore platform through to the connection within the embedded Transmission Interface Site operated by Eastern Power Networks Limited. The principles adopted in determining the TO General System Charges are explained in the section “Transmission Owner Revenue Restriction” outlined later in this statement.

The methodology for calculating the TO General System Charges, TO Site-Specific Charges, the Offshore Transmission Owner of Last Resort Charges and Other Charges is set out on the following pages.

Transmission Owner Revenue Restriction (TO General System Charges)

The Offshore Electricity Transmission Licence sets a restriction on BTSS's **TO General System Charges**, as described below.

Amended Standard Condition E12 – J2 (Restriction of Transmission Revenue: revenue from transmission owner services) of BTSS's Offshore Electricity Transmission Licence establishes the charge restriction that determines the allowed transmission owner revenue ($OFTO_t$) that BTSS may earn from its transmission owner services.

The formulae for the calculation of $OFTO_t$ are set out in BTSS's Licence. Initial values for the input parameters required to calculate charges for the 2013/14 financial year (year $t=1$) are as specified in Appendix 1.

In the event of additional capacity being required from BTSS the value of $OFTO_t$ will be adjusted in accordance with the formulae set out in the Licence (Amended Standard Condition E12 - J4 (Restriction of Transmission Revenue: Annual revenue adjustments) and Standard Condition E17 (Obligations in relation to offers for connection etc.)).

Transmission Owner Revenue Restriction (TO Site-Specific Charges)

BTSS does not expect to have any TO Site-Specific Charges.

TO Site-Specific Charges relate to costs associated with connections that aren't recovered through TO General System Charges or Other Charges. BTSS expects that the majority of the costs incurred in relation to connections would be recovered through TO General System Charges, with some related charges recovered as Other Charges. As a consequence, BTSS is unlikely to invoice NGET for any TO Site-Specific Charges.

Offshore Transmission Owner of Last Resort Charges

In the event that BTSS is given a notice by the Authority under Standard Condition E21 (Offshore Transmission Owner of Last Resort), then BTSS would be permitted to charge Offshore Transmission Owner of Last Resort Charges for transmission services provided in accordance with the direction of the Authority. These charges would be as set out and specified in a direction issued by the Authority to the OFTO in accordance with Standard Condition E21.

Other Charges – Excluded Services Charges

Amended Standard Condition E12 –J10 (Excluded Services) permits BTSS to charge NGET for other services provided in addition to those services provided in BTSS's capacity as Offshore Transmission Owner. No charges can be made to NGET for any services in so far as it relates to the provision of services remunerated under charges for offshore transmission owner services in accordance with amended standard condition E12 - J9 (Basis of Transmission Owner Charges). The basis for determining Transmission Owner charges are described above under the section "Transmission Owner Revenue Restriction".

Other charges - excluded services charges are permitted to be made in respect of:

- 1) The net costs reasonably incurred by BTSS arising from any outage change at NGET's request;
- 2) Costs arising from the processing of connection applications that might result in BTSS's providing additional transmission system capability together with any feasibility studies as requested by NGET;
- 3) Costs of relocating electrical plant, wires and cables and associated works arising from a statutory obligation (other than section 9 (2) of the Electricity Act 1989); and

The Other Charges relating to transmission services that can be levied on NGET by BTSS in any year are equal to the sum of the charges listed below net of any Interruption Charges (as defined in the STC) charged by NGET to BTSS.

a) Application fees

BTSS will charge NGET an application fee as set out in Appendix 2 at the time of each application for a new or modified connection to BTSS's transmission system. The application fee is intended to cover the actual engineering costs and other expenses incurred by BTSS in preparing an offer of terms, and are dependent upon the size, type and location of the proposed new or modified connection.

BTSS will monitor and record the actual costs incurred in preparing an offer of terms and when the work has been completed, BTSS will compare the actual costs incurred to the application fees charged to NGET. In the event that there is a difference between the application fee and costs incurred this amount will be charged or refunded to NGET as appropriate.

a) Application fees (continued)

NGET will be charged for the actual costs incurred by BTSS in carrying out this work, based on BTSS's market based charge-out rates as detailed in appendix 3 to this statement.

Should NGET notify BTSS of changes in the planning assumptions after receipt of an application fee, BTSS may levy an additional charge. In any event, whether an additional charge is levied or not, the actual costs incurred in preparing a revised connection will be charged to NGET through the mechanism described above when the offer is completed.

In exceptional circumstances, NGET may make an application which involves significant costs over and above those that would be normally expected (e.g. substantial system studies, specialist surveys, investigations) to process an offer of terms then BTSS reserves the right to vary the applicable fee.

If, following completion of the works to which the application related, the incremental capacity incentive adjustment term (ICA_t) in amended standard condition E12 - J4 (Restriction of transmission revenue: annual revenue adjustments) ("incremental capacity incentive") is adjusted so that the cost of the application is recovered through the TO General System Charges, then the application fee will be refunded to NGET.

b) Feasibility Study Fees

If NGET requests a feasibility study in connection with alterations to or extension of BTSS's network, a fee (the "advance fee") will become payable in advance of any engineering and out-of pocket expenses incurred by BTSS. The advance fee payable by NGET will vary according to the size of the study and the amount of work expected and will be charged on the basis of the expected cost of completing the feasibility study.

Actual costs incurred will be based on the BTSS's market based charge-out rates as shown in Appendix 3 and any other external costs incurred by BTSS (e.g. travel & subsistence costs, specialist surveys, external consultants etc.) in completing the study. Where the actual engineering and out-of pocket expenses incurred by BTSS exceed the advance fee, BTSS will issue an invoice for the excess. Conversely, where BTSS does not use the whole of the advance, the balance will be refunded.

c) Abortive works charges

If as a result of a modification application, received after commencement of works, BTSS is required to make amendment to the transmission construction works and BTSS has previously carried out some or all of the works that are no longer required, then these works are defined as "Abortive works". In such circumstances, NGET shall be required to make a payment to BTSS in respect of all fees, expenses and costs of whatever nature reasonably and properly incurred by BTSS in respect of these Abortive works for which BTSS is responsible or may otherwise become liable in respect of the Abortive Works.

c) Abortive works charges (continued)

Invoices will be raised on NGET in respect of all reasonably incurred costs attributable to the Abortive works.

If the Abortive works result in an adjustment to the incremental capacity so that the cost, or part thereof, of the Abortive works is recovered through the TO General System Charges, then the cost, or part thereof, previously charged to NGET in respect of the Abortive works will be refunded.

d) De-Energisation and Disconnection Charges

Where NGET wishes a supply to be permanently de-energised, a minimum of two business days' notice (or such other period as may be specified in the TO Construction Agreement and/or STC) to that effect should be given to BTSS. BTSS will then arrange to de-energise the supply. An additional charge will be made for this service if undertaken outside normal working hours in order to recover any additional costs for call-out or out-of-hours working.

Temporary de-energisation (and subsequent re-energisation) resulting from the failure by NGET to comply with the terms of their relevant agreement, or carried out at the request of NGET, will be charged for by BTSS to NGET based on the costs incurred by BTSS.

If NGET requests disconnection, this must be requested in writing.

e) Charges for Outage Changes

Where prearranged outages are rearranged at NGET's request or where NGET require additional services for planned or unplanned outages and these services are over and above the normal service provided under BTSS's Operation and Maintenance Service Agreement (relevant details of which will be disclosed to NGET on request), then additional charges will be made in respect of these additional services.

The additional charges levied on NGET will reflect the reasonably incurred net costs incurred by BTSS in accommodating NGET's request and will be determined in accordance with STCP 11-3 "TO Outage Change Costing". BTSS's charges to NGET in respect of rearranged outages and/or additional services will include all net costs incurred by BTSS and will relate directly to the activities required by NGET. Where appropriate these costs will be based on the market based charge-out rates as shown in appendix 3 to this statement.

e) Charges for Outage Changes (continued)

These costs include, but are not limited to:

- Demobilisation and remobilisation costs;
- Costs (including where appropriate, liquidated damages) of standing down or mobilising contractors until the rescheduled outage starts. Costs will be derived from contractors' invoices and, in the case of liquidated damages, from the relevant agreement(s);
- Costs of overtime working to reduce outage time so as to reduce NGET's net costs in maintaining system security. Cost will be based on overtime hours worked on the particular outage;
- Additional waiting on weather costs for carrying out work at different times of year;
- Costs of installing additional equipment, as required, such as bypass arrangements;
- Revenue deductions (or increases) through the incentive mechanism that the OFTO may be subject to as a result of the Outage Changes.

Where an outage is rearranged at NGET's request, BTSS will use all reasonable endeavours to minimise the charge to NGET by redeploying staff and/or contractors onto other work where this is reasonably possible.

f) Miscellaneous

If NGET should request BTSS to carry out any other activity which is not covered by the TO General System Charges, TO Site-Specific Charges, Offshore Transmission Owner of Last Resort Charges, Interruption Charges, or the Other Charges specified above, BTSS will provide terms for the requested work.

Any other service of a type not already referred to within this section where such a service is not part of the normal part of the offshore transmission business will be charged for based on BTSS's market based charge out rates shown in appendix 3 together with any other external costs incurred.

GLOSSARY

Allowed transmission owner revenue (OFTO _t)	The maximum revenue that BTSS is permitted to earn from the provision of transmission owner services, as determined by BTSS's Offshore Electricity Transmission Licence
Authority	The Gas and Electricity Markets Authority (Ofgem)
BTSS	Blue Transmission Sheringham Shoal Limited, the owner of the Sheringham Shoal offshore transmission system
kV	A unit equal to one thousand volts
NGET	National Grid Electricity plc, the GB system operator
Retail Price Index	Means the general index of retail prices published by the Office for National Statistics each month in respect of all items
Offshore Electricity Transmission Licence	A licence issued by the Authority which permits an OFTO to participate in the transmission of electricity.
STC	System Operator Transmission Owner Code, which defines the high-level relationship between the National Electricity Transmission System Operator (NGET) and Transmission Owners
STCP	System Operator Transmission Owner Code procedures
TO Construction Agreement	An agreement between NGET and BTSS pursuant to the STC
Transmission owner or TO	BTSS is the transmission owner of the Sheringham Shoal offshore transmission system and is responsible for delivering transmission owner services in accordance with the requirements of its Offshore Electricity Transmission Licence and System Operator Transmission Code
Transmission system	Those assets that comprise BTSS's entire transmission infrastructure from the 33kV array cable terminations on the 33kV circuit breakers located on the offshore platform through to the connection within the embedded Transmission Interface Site operated by Eastern Power Networks Limited.
OFTO	Offshore Transmission Owner

APPENDIX 1

Initial values of charging parameters

The parameters outlined in the table below are set out in the amended standard conditions of the Licence, specifically in:

E12 - J1 (Restriction of Transmission Revenue: Definitions)

E12 - J2 (Restriction of Transmission Revenue: revenue from transmission owner services)

E12 - J3 (Restriction of transmission revenue: Allowed pass-through items); and

E12 - J4 (Restriction of transmission revenue: Annual revenue adjustments).

Parameter	Estimated Initial Value
Tender Relevant Year	Financial year ending 31st March 2014 (this is t=1)
Commencement Relevant Year	Financial year ending 31 st March 2014 (this is t=1)
TR _t (tender revenue stream term) + MRA _t (market rate revenue adjustment term)	£19,128,230 (to be adjusted by MRA in accordance with amended standard condition E12-A2)
PR _t (portion of year covered by licence)	Asset transfer date: 5 July 2013 Start of commencement relevant yr: 1 Apr 2013 No of days from start of commencement relevant year to asset transfer date: 95 $PR_1 = 1 - (95/365.25)$ $PR_1 = 0.73990417522245$ $PR_t = 1$ for t>1
RIT _t (RPI indexation term)	$RIT_t = 1$ (since t=1 is tender relevant year) $RIT_2 = (1+RPI_2)*RIT_1$

Where RPI₂ is the percentage change between:

1. The average value of the retail price index from January 2012 to December 2012 inclusive (“relevant year t-2”), and
2. The average value of the retail price index from January 2013 to December 2013 inclusive (“relevant year t-1”).

Note:

RIT₁ applies to charges in the financial year ending 31 March 2014; and RIT₂ applies to charges in the financial year ending 31 March 2015.

Parameter	Estimated Initial Value
LF _t (licence fee cost adjustment term)	LF ₁ = 0 (Zero licence fees to Transmission Owners in most circumstances; see clause 3.4 of Ofgem document "Offshore Transmission Tender Guidance Note: Generic Offshore Transmission Owner (OFTO) Licence (3 September 2010)").
RB _t (business rates)	RB ₁ = £522,616.44 being the business rates attributable to BTSS's ownership period and based on a rateable value of £1,500,000 being an estimate of the valuation as provided by vendor of the OFTO assets and applying the non-domestic rate multiplier of 47.1p in the £.
CEL _t (crown estate lease)	CEL ₁ = £6,500 CEL _t = £nil for t>1
DC _t (decommissioning cost adjustment)	DC ₁ = 0
IAT _t (income adjusting event)	IAT ₁ = 0
TPD _t (temporary physical disconnection)	TPD ₁ = 0
TCA _t (tender fee cost adjustment)	TCA ₁ = £1,806,380 Comprising: 1/9th of PQ Payment of £5,000 1/9th of £50,000 ITT Payment £250,000 PB Payment £1,350,000 Successful Bidder Payment £200,269 Cost Assessment Payment
MCA _t (adjustment term for Marine and Coastal Act 2009)	MCA _t = 0
K _t (correction factor)	K _t = 0

Invoicing: tender fees (TCA₁) and Crown Estate Lease costs (CEL₁) will be invoiced as a one-off payment within the first invoice in accordance with paragraph 4.3.2 of section E of the STC, to match the costs as they are incurred.

APPENDIX 2

Application fees

Connection or modification size	Application fee
0-10 MW	£108k
10-100 MW	£130k
>100 MW	To be determined in the event of such an application.

All application fees are subject to VAT at the prevailing rate.

APPENDIX 3

Market based charge-out rates

Grade	Rate (£/day)
General manager	2,644
Legal director	2,644
Technical director	2,203
Principal engineer	1,322
Administrative support	606
External charges	Cost + 6%

All fees are subject to VAT at the prevailing rate.

The grade and mix of staff/contractors used to carry out the activity being requested will be at the appropriate level associated with the work required. Where particular skills are required that are not covered by the table above, then BTSS will obtain and provide the necessary resource at the prevailing market rate.

Given the complexity of the marine environment and interaction with prevailing weather conditions, it is possible that staff/contractors that are planned to carry out a specific activity or project are prevented from doing so by inclement weather. In such circumstances, to the extent that BTSS are unable to redeploy those staff/contractors to another activity then charges based on the above charge out rates will be levied to the activity or project that gave rise to their mobilisation in the first place.