

Transmission Access Review – Enhanced Transmission Investment Incentives: Final Proposals

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Target audience: Electricity transmission licensees, conventional and renewable generators, renewable interest groups, distribution network operators, suppliers and customers

Overview:

This document is a supplementary appendix to our Final Proposals for enhancements to the current funding arrangements, to facilitate additional investment within the current transmission price control period (TPCR4). The main document confirms the funding framework we intend to adopt to fund costs of relevant projects up to the end of 2011/12, and the planned investment which we intend to fund at this stage. We will consider the remaining investment currently planned over this period by the TOs as additional information becomes available. Future funding arrangements (beyond the end of 2011/12) will be dealt with separately.

This supplementary appendix contains the draft legal text of the proposed licence changes to give effect to our Final Proposals. Following consideration of responses, we intend to issue a formal statutory consultation under section 11 of the Electricity Act 1989 with a view to implementing the licence changes by 1 April 2010.

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Context

Energy plays a critical role in the continued economic prosperity of Great Britain. Increasing the contribution that renewable generation makes to meeting electricity demand is a critical part of Government's energy policy goals.

In the 2007 Energy White Paper, the Government announced a joint review of transmission access by Ofgem and the Department of Trade and Industry (DTI) (now the Department of Energy and Climate Change (DECC)). The Transmission Access Review (TAR) focused on the framework for the delivery of new electricity transmission infrastructure, the management and operation of existing grid capacity, and the operation of the grid. The need for the joint review was driven by the delays that a large volume of renewable and conventional generation face when seeking connection to the transmission system and the potential effects this will have, if not addressed, on achieving the Government's climate change targets and maintaining security of supply.

Following publication of the TAR Final Report in June 2008, a range of measures have been taken forward with the aim of improving access to the transmission network. These measures include actions to address short term impediments to connecting new generation to the grid and actions designed to improve access to the grid over the longer term. In addition, the Transmission Owners (TOs) have identified a considerable amount of further system reinforcement in the run up to 2020, to facilitate delivery of the Government's climate change target. We have been working with the TOs to establish funding arrangements to facilitate this programme of investment, which work we refer to as "TO Incentives".

The focus of our TO Incentives work is on transmission investment projects which could be commenced within the current transmission price control period (TPCR4). We have taken into account relevant interactions with related work on transmission investment, including our review of the regulatory framework (the RPI-X@20 project) and the setting of the next transmission price control. Our Initial Proposals, published in November 2009 set out our view that at this stage, taking into account the current condition of financial markets, a simple pragmatic approach to funding is the best way to ensure that critical investment is not delayed. This document sets out our Final Proposals taking into account views of respondents and the TOs and reflects our further assessment of the TOs investment plans taking into account the conclusions of the work carried out by our consultants.

Associated Documents

Documents relating to Transmission Price Control Review 4 (TPCR4):
<http://www.ofgem.gov.uk/Networks/Trans/PriceControls/TPCR4/ConsultationDecisionsResponses/Pages/Consultationdocumentdecisionsresponses.aspx>

Meeting the Energy Challenge - A White Paper on Energy. May 2007.

<http://www.berr.gov.uk/files/file39387.pdf>

RPI-X@20 project publications. March 2008 to date.

<http://www.ofgem.gov.uk/Networks/rpix20/Pages/RPIX20.aspx>

Transmission Access Review related documents are listed here:

<http://www.ofgem.gov.uk/Networks/Trans/ElecTransPolicy/tar/Pages/Traccrw.aspx>

TO Incentives documents:

- Transmission Access Review – Initial Consultation on Enhanced Transmission Investment Incentives. December 2008
- Transmission Access Review - Enhanced Investment Incentives Open Letter: Consultation on Short Term Measures. February 2009
- Transmission Owner (TO) Incentives Licence Modification. March 2009
- Transmission Access Review – Enhanced Transmission Investment Incentives: Update and Consultation on Further Measures. September 2009
- Transmission Access Review – Enhanced Transmission Investment Incentives: Initial Proposals. November 2009
- TO Incentives: Stakeholder Workshop. December 2009
- Transmission Access Review – Enhanced Transmission Investment Incentives: Final Proposals. January 2010
- Assessment of overall robustness of the transmission investment proposed for additional funding by the three GB Electricity Transmission Owners, KEMA Consulting. January 2010
- Transmission Investment Project Appraisal, PB Power. January 2010

Other Transmission Access Review documents:

- A Call for Evidence for a Review of Transmission Access. August 2007.
- Short Term Access Governance Report – Report to the Secretary of State. October 2007.
- Transmission Access Review – Interim Report to the Secretary of State. January 2008.
- Transmission Access Review – Analytical Discussion Document. April 2008.
- Transmission Access Review – Final Report to the Secretary of State. June 2008.

Documents relating to Transmission Price Control Review 5 (TPCR5):

<http://www.ofgem.gov.uk/Networks/Trans/PriceControls/TPCR5/Pages/TPCR5.aspx>

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Appendix 9 – Draft Proposed Licence Changes

Introduction

This supplementary appendix sets out our proposals for the licence changes to give effect to our Final Proposals set out in chapter 3 of the main document, based on the principles discussed in chapter 4.

We intend to reflect the above by introducing a new special condition into NGET, SHETL and SP Transmission's transmission licences. This new special condition sets out our proposed capex allowances for construction and pre-construction in accordance with our final proposals. It also includes provisions to adjust the allowances we make using a modified form of an asset value adjusting event, which exists in the TIRG licence condition, if additional works are required as a condition of statutory planning consent.

The new special condition creates an additional term called $TOInc_t$ which is an annual revenue figure for the relevant TO. The mechanism for the calculation of $TOInc_t$ is described in the new Special Condition D11 ("Adjustment to the Transmission Network Revenue Restriction due to Transmission Asset Owner Incentives") for NGET and new Special Condition J12 ("Adjustment to the Transmission Network Revenue Restriction due to Transmission Asset Owner Incentives") for SHETL and SP Transmission. For the licensees to recover the investment associated with this term it has been inserted into the total revenue equations set out in NGET's Special Licence Condition D2 and SHETL's and SP Transmission's Special Licence Condition J2 ("Restriction of Transmission Network Revenue"). For ease of reference, changes to the current drafting in Special Condition D2 and J2 have been highlighted in red.

Our draft proposals for the revised licence condition are set out below for consultation. There are of course several areas where we intend to re-visit the drafting before implementation, including:

1. The general clarity of the conditions;
2. Potentially re-calculating the costs in the Annex A tables in 2004/05 prices;
3. Potentially creating a "work in progress" provision;
4. Revising the $CXIncTO_t$ term to deal with an incompatibility between project specific calculation in paragraph 2 and the aggregate calculation in paragraph 5 of Special Condition D11 and J12;

5. Developing the asset value adjusting event provisions more fully;
6. Ensuring consistency in reporting requirements with those set out in Standard Condition B15 and B16, and
7. Populating the output measures tables and the project descriptions in Annex A.

Following this publication, we will produce a statutory licence consultation to formally propose under section 11 of the Electricity Act 1989 to amend the transmission licensees of the three TOs. Upon acceptance of the proposals in the statutory licence consultation, we will direct changes to the transmission licence to take effect from 1 April 2010.

Comments are welcome on any elements of the licence text contained within this supplementary Appendix by 16 February 2010.

Proposed Licence Changes for National Grid

Special Condition D2 - Restriction on Transmission Network Revenue

Transmission Network Revenue Restriction

- 1 The licensee shall use its best endeavours to ensure that in any relevant year transmission network revenue shall not exceed the maximum revenue which shall be calculated in accordance with the formula given in paragraph 2 below.

Formula for Transmission Network Revenue Restriction

- 2 In respect of the relevant year commencing 1 April 2007 and each subsequent relevant year t , maximum revenue shall be calculated in accordance with the following formula:

$$TO_t = PR_t + TIRG_t + PT_t + IP_t + CxIncRA_t + IE_t + DIS_t + ER_t + LC_t + TS_t + TOInc_t - K_t$$

where:

TO_t means maximum revenue in the relevant year t ;

PR_t means base transmission revenue, which shall, in respect of the relevant year commencing 1 April 2007, be calculated as:

$$PR_t = RBT \times PIT_t$$

where:

RBT shall take the value £987,300,000 (being in 2004/05 prices); and

PIT_t is the price index adjustment for the relevant year t , and in the relevant year commencing 1 April 2004 shall take the value of 1 and in each subsequent relevant year shall be derived from the following formula:

$$PIT_t = \left[1 + \frac{RPI_t}{100} \right] \times PIT_{t-1};$$

and, in the relevant year commencing 1 April 2008 and each subsequent relevant year, PR_t shall be calculated in accordance with the following formula:

$$PR_t = PR_{t-1} \times \left(1 + \frac{RPI_t + X}{100} \right)$$

where:

PR_{t-1} means base transmission revenue in relevant year $t-1$ and shall be calculated in the same manner as PR_t save that references to the relevant year t shall be replaced by references to the relevant year $t-1$, and any other references shall be construed accordingly;

RPI_t means the percentage change (whether of a positive or a negative value) in the arithmetic average of the Retail Price Index numbers published or determined with respect to each of the six months from July to December (both inclusive) in relevant year t-1 and that is published or determined with respect to the same months in relevant year t-2; and

X shall take the value two;

$TIRG_t$ means, for each TIRG relevant year t, the aggregate of the annual revenue allowances for each transmission investment project specified in annex A to special condition D3 (Adjustment to the Transmission Network Revenue Restriction due to Transmission Investment for Renewable Generation) and shall be calculated in accordance with that special condition;

PT_t means the revenue adjustment term, whether of a positive or of a negative value, made in the relevant year t in respect of allowed pass through items as derived in accordance with special condition D4 (Pass Through Items);

IP_t means incentive revenue adjustment term, whether of a positive or of a negative value, calculated for the relevant year t in accordance with special condition D5 (Incentive Payments);

$CxIncRA_t$ means the capital expenditure incentive revenue adjustment term, whether of a positive or of a negative value, made in the relevant year commencing 1 April 2012 in respect of the application of the capital expenditure incentive regime as calculated in accordance with special condition D9 (Capital Expenditure Incentive and Safety Net). For each relevant year prior to the relevant year commencing 1 April 2012 and for each relevant year after the

relevant year commencing 1 April 2012 the term $CxIncRA_t$ shall take the value zero;

IE_t means the allowance made in respect of the relevant year t representing the estimated costs incurred by the licensee in the relevant year in association with the issuance of new equity and shall take the value set out in the table below:

IE_t in the Relevant Year commencing 1 April	2007	2008	2009	2010	2011
National Grid Electricity Transmission plc	Nil	Nil	Nil	Nil	Nil
Scottish Hydro-Electric Transmission Ltd	Nil	Nil	£3,250,000	£2,625,000	Nil
SP Transmission Ltd	Nil	Nil	Nil	£2,500,000	Nil

DIS_t means the difference (whether of a positive or negative value) between:

- (a) the total amount charged to the licensee in relevant year $t-1$ by Scottish Hydro-Electric Transmission Ltd and SP Transmission plc in respect of Site-Specific Charges (as such charges are defined in Schedule Ten of the STC); and
- (b) the total income recovered by the licensee in respect of

excluded services in relevant year t-1 from customers in the respective transmission areas of each of Scottish Hydro-Electric Transmission Ltd and SP Transmission plc.

ER_t means the price control extension reconciliation revenue adjustment term, which in the relevant year commencing 1 April 2007 shall be calculated in accordance with the following formula:

$$ER_t = RER_t \times PIT_t$$

where:

RER_t means the allowance in respect of the revenue reconciliation adjustment and shall take the value £700,000 (in 2004/05 prices); and

PIT_t shall take the same meaning as set out in the definition of the term PR_t above.

In respect of the relevant year commencing 1 April 2008 and each subsequent relevant year t, ER_t shall take the value zero;

LC_t means the revenue adjustment term, whether of a positive or of a zero value, made in the relevant year commencing 1 April 2012 in respect of the full recovery of efficiently incurred logged up costs (adjusted for financing costs) as specified in paragraph 3 of this condition. For each relevant year prior to the relevant year commencing 1 April 2012 and for each relevant year after the relevant year commencing 1 April 2012 LC_t shall take the value zero;

TS_t means the difference, whether of a positive or of a negative value, between:

- (a) the total amount charged to the licensee in relevant year t-1 by Scottish Hydro-Electric Transmission Ltd and SP Transmission plc in respect of transmission owner final sums (as such charges are defined in schedule nine of the STC); and
- (b) an amount equal to the income received by the licensee in the relevant year t-1 in respect of users who terminate relevant bilateral agreements for connection and/or access rights to the GB transmission system in the respective transmission areas of each of Scottish Hydro-Electric Transmission Ltd and SP Transmission plc prior to commencing use of the GB transmission system (for the avoidance of doubt, including any amounts that are treated as capital contributions);

TOInc_t means, for each relevant year t, the aggregate of the annual revenue allowances for each transmission investment project i specified in Annex A to special condition D11 (Adjustment to the Transmission Network Revenue Restriction due to Transmission Asset Owner Incentives) and shall be calculated in accordance with that special condition; and

K_t means the revenue restriction correction term, whether of a positive or of a negative value, which is calculated in accordance with the formula below:

$$K_t = (AR_{t-1} - TO_{t-1}) \times \left[1 + \frac{(I_t + PI_t)}{100} \right]$$

where:

- AR_{t-1} means, subject to paragraph 3 of special condition D6 (Adjustments to Transmission Network Revenue), transmission network revenue, in respect of the relevant year t-1 provided that in calculating AR_{t-1} for the purpose of K_t no account shall be taken of any positive or negative revenue in respect of the provision of transmission network services in any relevant year preceding t-1 other than such revenue as it is in the reasonable opinion of the Authority reasonable and appropriate to take into account;
- TO_{t-1} means the maximum revenue in the relevant year t-1 except in the relevant year commencing 1st April 2007 where it shall be the maximum revenue (M_t) for the relevant year commencing 1 April 2006 as defined by Part 1 of special condition AA5A (Revised Restriction on Revenue) in the licence in force on 31 March 2007;
- I_t means the average specified rate as defined in special condition D1 (Definitions); and
- PI_t means the penalty interest rate in relevant year t which is equal to, where $(AR_{t-1} - TO_{t-1})$ has a positive value and transmission network revenue in relevant year t-1 exceeds the maximum revenue in relevant year t-1 by more than 2.75 per cent, the value four, otherwise is equal to the value zero.

- 3 For the purposes of paragraph 2, LC_t shall comprise the capital expenditure and operating expenditure costs incurred in the period 1 April 2007 to 31 March 2012, and reported to the Authority in accordance with standard condition B15 (Price Control Review Information), by the licensee against the following cost categories:
- (a) underground cable tunnels up to a cap of £60,000,000 (in 2004/05 values);
 - (b) upgrading of operational telecommunication systems resulting from the introduction of BT's 21st Century Networks programme;
- subject to the licensee satisfying the Authority that such costs have been efficiently incurred.

Special Condition D11 – Adjustment to the Transmission Network Revenue Restriction due to Transmission Asset Owner Incentives

Part 1 – TO Incentives Revenue Adjustment Calculation

1. For each relevant year t , $TOInc_t$ shall be calculated in accordance with the following formula:

$$TOInc_t = \sum_{all\ i} TOInc_t^i$$

where:

$TOInc_t^i$ means the annual revenue allowance in relevant year t for each transmission investment project i specified in Annex A to this condition, and shall be calculated in accordance with paragraph 2.

2. For each relevant year t , the annual revenue allowance for each transmission investment project i specified in Annex A shall be calculated in accordance with the following formula:

$$TOInc_t^i = ConTOInc_t^i + CxIncTO_t^i - IntTORev_t^i$$

where:

- $ConTOInc_t^i$ means the annual pre-construction and construction revenue allowance for each transmission investment project i specified in Annex A for the relevant year t and shall be calculated in accordance with paragraph 3;
- $CxIncTO_t^i$ means the annual revenue adjustment term in respect of the application of the capital expenditure incentive regime for each transmission investment project i specified in Annex A for the relevant year t and shall be calculated in accordance with paragraph 5, and
- $IntTORev_t^i$ means the annual revenue allowance for which funding has already been allowed for each transmission investment project i specified in Annex A for the relevant year t , where such funding has been allowed under Part 2 of special condition D5 (Restriction of transmission charges: Total incentive revenue adjustment), and shall have the value of zero unless directed otherwise by the Authority in writing.

Calculation of revenue allowance, $ConTOInc_t$

3. For the purposes of paragraph 2, the term $ConTOInc_t^i$ shall be calculated in accordance with the following formula:

$$ConTOInc_t^i = CCTOInc \times (AAVConTOInc_t^i + AVAECOnTOInc_t^i) \times ARPI_t + (ConTOIncDepn_t^i + AVAECOnTOIncDepn_t^i) \times ARPI_t$$

where:

- CCTOInc** means the pre-tax cost of capital in real terms for the transmission investment project *i* for each relevant year *t* and for the purposes of this special condition shall take the value 6.25%;
- AAVConTOInc_tⁱ** means the average asset value for the transmission investment project *i* for each of the relevant years 2010/11 to 2011/12 and shall have the value specified in Annex A for each relevant year, and where no value is specified in Annex A for a relevant year shall have the value of zero;
- AVAEConTOInc_tⁱ** means one or more adjustments to the average asset value for the transmission investment project *i* for the relevant years 2010/11 to 2011/12 (AAVConTOInc_tⁱ) as a result of an asset value adjusting event and each adjustment shall be determined by the Authority in accordance with paragraph 4;
- ARPI_t** means the price index adjustment, which in the relevant year commencing 1 April 2004 equals 1, and in all subsequent years is derived from the following formula:

$$ARPI_t = \left[1 + \frac{RPI_t}{100} \right] \times ARPI_{t-1}$$

Where:

RPI_t means the percentage change (whether of a positive or a negative value) in the arithmetic average of the Retail Price Index numbers published or determined with respect to each of the six months from January to July (both inclusive) in relevant year t-1 and that is published or determined with respect to the same months in relevant year t-2.

$ConTOIncDepn_t^i$ means the depreciation value for the transmission investment project i for each of the relevant years 2010/11 to 2011/12 and shall have the value specified in Annex A for each relevant year, and where no value is specified in Annex A for a relevant year shall have the value of zero, and

$AVAConTOIncDepn_t^i$ means one or more adjustment to the depreciation value for the transmission investment project i for the relevant years 2010/11 to 2011/12 ($ConTOIncDepn_t^i$) as a result of an asset value adjusting event and each adjustment shall be determined by the Authority in accordance with paragraph 4.

Asset value adjusting event

4. (a) For the purpose of this paragraph, an asset value adjusting event means relevant additional preconstruction works or a relevant amendment to the scope of construction works, that the Authority is satisfied is expected to cause costs and/or expenses to be incurred or saved in relation to the

transmission investment project i , where the Authority is satisfied that those costs and expenses:

- (i) are expected to result in a material increase or decrease to the average asset value for the transmission investment project i for the relevant years 2010/11 to 2012/13 (ConTOInc_t^i);
 - (ii) are expected to be efficiently incurred or saved, and
 - (iii) can not otherwise be recovered under the revenue allowance provided by this condition or any other provision within the transmission licence.
- (b) For the purposes of subparagraph (a) –
- (i) “relevant additional preconstruction works” means an amendment to the scope of the preconstruction works expected to be carried out by the licensee during the relevant years 2010/11 to 2011/12 as a result of the terms and/or conditions of any statutory consent, approval or permission in respect of the transmission investment project i (including but not limited to planning consent); and
 - (ii) “relevant amendment to the scope of construction works” means an amendment to the scope of construction works that is necessary to comply with the terms and/or conditions of any statutory consent, approval or permission in respect of the transmission investment project i (including but not limited to planning consent).
- (c) Where the licensee considers, and can provide supporting evidence that, an asset value adjusting event has occurred in relation to the transmission

investment project i , then the licensee shall give notice of that event to the Authority as soon as is reasonably practicable after that event has occurred and in any event within three months after the end of the relevant year in which that event has occurred (or at such later date as the Authority notifies to the licensee for the purposes of this subparagraph).

- (d) A notice provided under subparagraph (c) shall give particulars of:
- (i) the asset value adjusting event to which the notice relates and the reason(s) why the licensee considers that event to be an asset value adjusting event;
 - (ii) the costs and/or expenses that the licensee can demonstrate are expected to be incurred or saved by that event and how the amount of those costs and/or expenses have been calculated;
 - (iii) the amount of any material increase or decrease in the average asset value for the transmission investment project i for relevant years 2010/11 to 2011/12 (ConTOInc_t^i) that the licensee can demonstrate is expected to occur as a result of that event and how the amount of that increase or decrease has been calculated;
 - (iv) the reasons why the licensee considers that the costs and/or expenses can not otherwise be recovered under the revenue allowance provided by this special condition;
 - (v) the amount of any AVAECOnTOInc_t^i adjustment proposed as a consequence of that event and how this AVAECOnTOInc_t^i adjustment has been calculated;
 - (vi) the amount of any increase or decrease in the depreciation

- value for the transmission investment project i for the relevant years 2010/11 to 2011/12 ($ConTOIncDepn_t^i$) that the licensee can demonstrate is expected to occur as a result of that event and how the amount of that increase or decrease has been calculated;
- (vii) the amount of any $AVAECOnTOIncDepn_t^i$ adjustment proposed as a consequence of that event and how this $AVAECOnTOIncDepn_t^i$ adjustment has been calculated;
- (viii) relevant internal papers where revised expenditure has been requested and evidence of relevant contractual information between the licensee and any relevant contractor;
- (ix) a statement from independent technical advisers setting out the additional preconstruction works/amended scope of construction works (as appropriate) and a statement from independent auditors setting out that in their opinion the notice fairly presents the costs and expenses expected to be incurred or saved by the additional preconstruction works/amended scope of the construction works;
- (x) a statement on the impact of such an adjustment on the output measures associated with relevant transmission investment project i , and,
- (xi) any other analysis or information which the licensee considers to be relevant to the Authority's assessment of that event.
- (e) Where the Authority receives a notice under subparagraph (c), the Authority shall determine (after consultation with the licensee and such other persons it considers necessary):

- (i) whether an asset value adjusting event has occurred in respect of the transmission investment project i ;
 - (ii) where the Authority determines that an asset value adjusting event has occurred in respect of the transmission investment project i , whether the transmission investment project i will remain economically efficient as a consequence of that asset value adjusting event;
 - (iii) a $AVAECOnTOInc_t^i$ adjustment in respect of the transmission investment project i ; and
 - (iv) a $AVAECOnTOIncDepn_t^i$ adjustment in respect of the transmission investment project i ;
- (f) Where the Authority determines under subparagraph (e) that an asset value adjusting event has occurred in respect of the transmission investment project i and that the transmission investment project i will remain economically efficient as a consequence of that asset value adjusting event, the $AVAECOnTOInc_t^i$ and $AVAECOnTOIncDepn_t^i$ adjustments in respect of the transmission investment project i determined by the Authority under subparagraph (e) shall be such as to ensure that the financial position and performance of the licensee is, insofar as is reasonably practicable, the same as if that asset value adjusting event had not occurred;
- (g) Where the Authority makes a determination under this paragraph, the Authority shall publish a notice stating the $AVAECOnTOInc_t^i$ and $AVAECOnTOIncDepn_t^i$ adjustments for the transmission investment project i and the reasons for the determination;
- (h) The Authority may revoke a determination made under this paragraph with

the consent of the licensee;

- (i) For the purpose of paragraph 3, the terms $AVAECOnTOInc_t^i$ and $AVAECOnTOIncDepn_t^i$ shall be the $AVAECOnTOInc_t^i$ and $AVAECOnTOIncDepn_t^i$ adjustments for the transmission investment project i determined by the Authority under subparagraph (e), and where the Authority has not made a determination under subparagraph (e) shall be zero; and
- (j) Where the licensee notifies the Authority of an asset value adjusting event under subparagraph (c), the licensee shall ensure that the costs and/or expenses that are the subject of that notification are not also notified to the Authority in relation to any other revenue recovery arrangements.

Incentive revenue adjustment

- 5. For the purpose of paragraph 2 of this condition, $CxIncTO_t$ shall in each relevant year t take the value of zero, except for the relevant year commencing 1 April 2012 in which $CxIncTO_t$ shall be calculated in accordance with the following formula:

$$CxIncTO_t = \sum_n [(TOCIR_n - 0.25) \times PVF_n \times TOIncDif_n \times PIT_t]$$

Where:

n means the relevant year n such that the first relevant year n shall be the year commencing on 1 April 2010 and accordingly the second relevant year n is the year commencing on 1 April 2011;

$TOCIR_n$ means the capital expenditure incentive sharing factor, in respect of the proportion of under or overspend against the capital expenditure allowance for the relevant year n in relation to the transmission investment projects specified in Annex A, that is borne by the licensee between relevant year n commencing 1 April 2010 and the end of relevant year n commencing 1 April 2011 and shall take the value set out in the table below:

Relevant year commencing 1 April	2010	2011
$TOCIR_n$	0.1118	0.0313

PVF_n means the present value adjustment factor in respect of the relevant year n and shall take the value set out in the table below:

Relevant year commencing 1 April	2010	2011
PVF_n	1.12891	1.06250

$TOIncDif_n$ represents the difference, expressed in 2004/05 prices, between the adjusted efficient capital expenditure and the capital expenditure allowance in respect of relevant year n , which shall represent the total

capital expenditure allowance across all projects i for each relevant year n and shall be calculated in accordance with the following formula:

$$TOIncDif_n = \left(\frac{TOIncACx_n}{PIT_n} \right) - TOIncBCx_n$$

Where:

$TOIncACx_n$ is the adjusted efficient capital expenditure incurred by the licensees in respect of the relevant year n and shall be calculated in accordance with paragraph 6 of this condition;

PIT_n shall take the value of PIT_t for relevant year $t=n$, where PIT_t shall take the same meaning as given in paragraph 3 of special condition D2 (Restriction on Transmission Network Revenue);

$TOIncBCx_n$ means the total capital expenditure allowance, comprised of the summation of capital expenditure across all relevant transmission investment projects specified in Annex A, expressed in 2004/05 prices in respect of the relevant year n , and shall take the value set out in the table below:

Total costs (£ million) 2008/09 prices	2009/10	2010/11	2011/12

TOIncBC _{x_n}	2.0	73.2	116.9
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PIT_t shall take the same meaning as given in paragraph 3 of special condition D2 (Restriction on Transmission Network Revenue);

6. For the purposes of paragraph 5, TOIncAC_{x_n} shall be calculated in accordance with the following formula:

$$TOIncACx_n = TOIncCx_n - TOIncDCx_n$$

Where:

TOIncC_{x_n} means the capital expenditure, expressed net of pensions contributions incurred by the licensee in the relevant year n associated with the relevant transmission investment projects specified in Annex A of this condition, as reported to the Authority pursuant to standard condition B15 (Price Control Review Information), and

TOIncDC_{x_n} means the amount of capital expenditure incurred by the licensee in respect of the relevant year n, in respect of which the Authority has issued a direction on or before 31 March 2012 in respect of relevant year from 1 April 2010 to 31 March 2011 and on or before 31 March 2013 in respect of relevant year from 1 April 2011 to 31 March 2012, that such investment is deemed inefficient in accordance with paragraphs 7 and 8 of this condition. It shall take the value of zero unless the Authority directs otherwise.

7. For the purposes of paragraph 6, before issuing a direction that certain capital expenditure is deemed inefficient, the Authority shall issue a notice to the licensee, specifying:
 - (a) the amount of capital expenditure that the Authority proposes to deem inefficient;
 - (b) the reasons why the Authority considers that the capital expenditure referred to in sub-paragraph (a) is inefficient;
 - (c) the date, being of not less than 28 days from the date of the notice, by which the licensee may make representations to the Authority in respect of the notice; and
 - (d) the date by which the Authority intends to make a direction.
8. The Authority shall have regard to any representations made by the licensee in response to the notice referred to in paragraph 7 before making any direction in respect of paragraph 6.

**Part 2 - Information to be provided to the Authority in connection with
Transmission Asset Owner Incentives Projects**

9. For each transmission investment project i specified in Annex A to this condition, the licensee shall provide the Authority with the following:
 - (a) during or prior to the relevant year t in which construction works commence, a preconstruction technical report, accompanied by a statement from independent technical advisors, setting out:

- (i) the delivered output measures in the pre-construction period assessed against the forecast output measures in Annex A to this condition for the transmission investment project i; and
- (ii) the forecast output measures for the construction period assessed against the forecast output measures in Annex A to this condition for the transmission investment project i.

Not later than three months after the end of each relevant year t in which construction works take place (or such later date as the Authority notifies to the licensee for the purposes of this subparagraph)

- (iii) a construction technical report, setting out the technical milestones achieved in respect of the preceding relevant year and the extent to which the transmission investment project i complies with the output measures and key project milestones specified in Annex A to this condition.
- (b) not later than three months after the end of relevant year t in which construction works are completed (or such later date as the Authority notifies to the licensee for the purposes of this subparagraph):
- (i) a post construction technical report, accompanied by a construction completion certificate from independent technical advisors, setting out the actual capability of the transmission investment project i and the extent to which the transmission investment project i complies with the output measures specified in Annex A to this condition.

10. The Authority may require the licensee to provide it with such information in such form and within such time as it may reasonably request which is, in the Authority's opinion, necessary in order to carry out any of its functions under this

condition.

11. (a) The output measures specified in Annex A to this condition may be amended in accordance with this paragraph.
- (b) For the purpose of this paragraph, an output measures adjusting event means a relevant amendment to the scope of the construction works (as defined in paragraph (4)(b)(ii) to this condition) which the Authority is satisfied is expected to cause a material change in the output measures specified in Annex A to this condition for the transmission investment project i.
- (c) Where the licensee considers, and can provide supporting evidence that, an output measures adjusting event has occurred in relation to the transmission investment project i, then the licensee shall give notice of that event to the Authority as soon as is reasonably practicable after that event has occurred and in any event within three months of the beginning of relevant year $t=0$ (or at such later date as the Authority notifies to the licensee for the purposes of this subparagraph).
- (d) A notice provided under subparagraph (c) shall be accompanied by a statement from independent technical advisors setting out the amended scope of construction works and shall give particulars of:
- (i) the output measures adjusting event to which the notice relates and the reason(s) why the licensee considers that event to be an output measures adjusting event;
 - (ii) output measures adjustment proposed as a consequence of that event and how this output measures adjustment has been calculated; and

- (iii) any other analysis or information which the licensee considers to be relevant to the Authority’s assessment of that event.
- (e) Where the Authority receives a notice under subparagraph (c), the Authority shall determine (after consultation with the licensee and such other persons it considers necessary):
 - (i) whether an output measures adjusting event has occurred in respect of the transmission investment project i; and
 - (ii) where the Authority determines that an output measures adjusting event has occurred in respect of the transmission investment project i, an output measures adjustment in respect of the transmission investment project.
- (f) Where the Authority makes a determination under this paragraph, the Authority shall publish a notice stating the output measures adjustment for the transmission investment project i and the reasons for the determination.
- (g) The Authority may revoke a determination made under this paragraph with the consent of the licensee.

Annex A to Special Condition D11: Supplementary Provisions

The Authority may direct changes to the pre-construction cost allowance and construction cost allowance in this Annex A to amend the project costs of relevant transmission investment projects and/or add project costs for new relevant transmission investment projects where the licensee provides notice to the Authority. Such notice shall give particulars of:

- (i) where appropriate, the reason(s) for amendments to the project costs of relevant transmission investment projects with supporting evidence;
- (ii) where appropriate, the needs case for new relevant transmission investment projects with supporting evidence;
- (iii) an up-to-date forecast of pre-construction and construction costs for the relevant transmission investment project; and
- (iv) a description of the output measures for the relevant transmission investment project in the form set out in this Annex A.

The Authority will consult with interested parties prior to issuing a direction.

Anglo Scottish Incremental**1. Pre-construction and Construction costs**

project costs (£ million) 2008/09 prices	2009/10	2010/11	2011/12
Pre-construction cost allowance	0.0	5.0	4.5
Construction cost allowance	0.0	0.0	0.0
Average asset value during construction period (AAVConTOInc _t ⁱ)	0.00	2.50	7.13
Depreciation during Construction (ConTOIncDepn _t ⁱ)	0.00	0.00	0.25

2. Output measures

To be inserted

Key projects milestones

	2009/10	2010/11	2011/12
Description of key project milestones in the pre- construction period			
Description of key project			

milestones in the construction period			
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Central Wales**1. Pre-construction and Construction costs**

project costs (£ million) 2008/09 prices	2009/10	2010/11	2011/12
Pre-construction cost allowance	0.0	1.2	1.8
Construction cost allowance	0.0	0.0	0.0
Average asset value during construction period (AAVConTOInc _t ⁱ)	0.00	0.60	2.07
Depreciation during Construction (ConTOIncDepn _t ⁱ)	0.00	0.00	0.06

2. Output measures

To be inserted

Key projects milestones

	2009/10	2010/11	2011/12
Description of key project milestones in the pre- construction period			
Description of key project			

milestones in the construction period			
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East Anglia**1. Pre-construction and Construction costs**

project costs (£ million) 2008/09 prices	2009/10	2010/11	2011/12
Pre-construction cost allowance	0.0	5.9	3.2
Construction cost allowance	2.0	35.0	73.3
Average asset value during construction period (AAVConTOInc _t ⁱ)	1.00	22.40	79.98
Depreciation during Construction (ConTOIncDepn _t ⁱ)	0.00	0.10	2.14

2. Output measures

To be inserted

Key projects milestones

	2009/10	2010/11	2011/12
Description of key project milestones in the pre- construction period			
Description of key project			

milestones in the construction period			
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Eastern HVDC link**1. Pre-construction and Construction costs**

project costs (£ million) 2008/09 prices	2009/10	2010/11	2011/12
Pre-construction cost allowance	0.0	0.8	1.6
Construction cost allowance	0.0	0.0	0.0
Average asset value during construction period (AAVConTOInc _t ⁱ)	0.00	0.38	1.54
Depreciation during Construction (ConTOIncDepn _t ⁱ)	0.00	0.00	0.04

2. Output measures

To be inserted

Key projects milestones

	2009/10	2010/11	2011/12
Description of key project milestones in the pre- construction period			
Description of key project			

milestones in the construction period			
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Humber**1. Pre-construction and Construction costs**

project costs (£ million) 2008/09 prices	2009/10	2010/11	2011/12
Pre-construction cost allowance	0.0	2.0	3.7
Construction cost allowance	0.0	0.0	0.0
Average asset value during construction period (AAVConTOInc _t ⁱ)	0.00	1.00	3.80
Depreciation during Construction (ConTOIncDepn _t ⁱ)	0.00	0.00	0.10

2. Output measures

To be inserted

Key projects milestones

	2009/10	2010/11	2011/12
Description of key project milestones in the pre- construction period			
Description of key project			

milestones in the construction period			
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London**1. Pre-construction and Construction costs**

project costs (£ million) 2008/09 prices	2009/10	2010/11	2011/12
Pre-construction cost allowance	0.0	3.0	2.0
Construction cost allowance	0.0	0.0	0.0
Average asset value during construction period (AAVConTOInc _t ⁱ)	0.00	1.50	3.93
Depreciation during Construction (ConTOIncDepn _t ⁱ)	0.00	0.00	0.15

2. Output measures

To be inserted

Key projects milestones

	2009/10	2010/11	2011/12
Description of key project milestones in the pre- construction period			
Description of key project			

milestones in the construction period			
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North Wales**1. Pre-construction and Construction costs**

project costs (£ million) 2008/09 prices	2009/10	2010/11	2011/12
Pre-construction cost allowance	0.0	7.0	7.2
Construction cost allowance	0.0	0.0	0.0
Average asset value during construction period (AAVConTOInc _t ⁱ)	0.00	3.48	10.38
Depreciation during Construction (ConTOIncDepn _t ⁱ)	0.00	0.00	0.35

2. Output measures

To be inserted

Key projects milestones

	2009/10	2010/11	2011/12
Description of key project milestones in the pre- construction period			
Description of key project			

milestones in the construction period			
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South West**1. Pre-construction and Construction costs**

project costs (£ million) 2008/09 prices	2009/10	2010/11	2011/12
Pre-construction cost allowance	0.0	2.7	2.1
Construction cost allowance	0.0	0.0	0.0
Average asset value during construction period (AAVConTOInc _t ⁱ)	0.00	1.35	3.68
Depreciation during Construction (ConTOIncDepn _t ⁱ)	0.00	0.00	0.14

2. Output measures

To be inserted

Key projects milestones

	2009/10	2010/11	2011/12
Description of key project milestones in the pre- construction period			
Description of key project			

milestones in the construction period			
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Western HVDC link**1. Pre-construction and Construction costs**

project costs (£ million) 2008/09 prices	2009/10	2010/11	2011/12
Pre-construction cost allowance	0.0	5.8	4.4
Construction cost allowance	0.0	5.0	13.1
Average asset value during construction period (AAVConTOInc _t ⁱ)	0.00	5.37	19.21
Depreciation during Construction (ConTOIncDepn _t ⁱ)	0.00	0.00	0.54

2. Output measures

To be inserted

Key projects milestones

	2009/10	2010/11	2011/12
Description of key project milestones in the pre- construction period			
Description of key project			

milestones in the construction period			
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Proposed Licence Changes for SP Transmission

Special Condition J2 - Restriction of transmission charges: revenue from transmission owner services

- 1 The purpose of this condition is to establish the charge restriction that determines the allowed transmission owner revenue that the licensee may earn from its transmission owner services.

Part A: Transmission Owner Revenue Restriction

- 2 The licensee shall take all appropriate steps within its power to ensure that in any relevant year t, regulated transmission revenue shall not exceed the allowed transmission owner revenue calculated in accordance with the formula given in paragraph 3 below.

Formula for Allowed Transmission Owner Revenue (TO_t)

- 3 In respect of the relevant year commencing 1 April 2007 and each subsequent relevant year t, allowed transmission owner revenue shall be calculated in accordance with the following formula:

$$TO_t = PR_t + TIRG_t + PT_t + IP_t + CxIncRA_t + IE_t + LC_t + \mathbf{TOInc}_t - K_t$$

where:

TO_t means allowed transmission owner revenue in the relevant year t.

PR_t means base transmission revenue which shall, in respect of the relevant year commencing 1 April 2007, be calculated as:

$$PR_t = RBT \times PIT_t$$

where:

RBT shall take the value £147,342,000 (being in 2004/05 prices);
and

PIT_t is the price index adjustment for the relevant year t, and in the relevant year commencing 1 April 2004 has the value of 1 and in each subsequent relevant year shall be derived from the following formula:

$$PIT_t = \left[1 + \frac{RPI_t}{100} \right] \times PIT_{t-1}$$

and, in the relevant year commencing 1 April 2008 and each subsequent relevant year PR_t shall be calculated in accordance with the following formula:

$$PR_t = PR_{t-1} \times \left(1 + \frac{RPI_t + X}{100} \right)$$

where:

RPI_t means the percentage change (whether of a positive or a negative value) in the arithmetic average of the Retail Price Index numbers published or determined with respect to each of the six months from July to December (both inclusive) in relevant year t-2 and the arithmetic average of the Retail Price Index numbers published or determined with respect to the same months in relevant year t-1; and

X shall take the value of two (“2”).

$TIRG_t$ means, for each TIRG relevant year t, the aggregate of the annual revenue allowances for each transmission investment project specified in Schedule C and calculated in accordance with special condition J3 (Restriction of transmission charges: Transmission Investment for Renewable Generation);.

PT_t means the revenue adjustment term, whether of a positive or of a negative value, made in the relevant year t in respect of allowed pass through items as derived in accordance with special condition J4 (Restriction of transmission charges: Allowed pass-through items);

IP_t means the total amount of incentive revenue, whether of a positive or of a negative value, calculated for the relevant year t in accordance with Special condition J5 (Restriction of transmission charges: Total incentive revenue adjustment);

$CxIncRA_t$ means the revenue adjustment term, whether of a positive or of a negative value, made in the relevant year commencing 1 April

2012 in respect of the application of the capital expenditure incentive regime as calculated in accordance with special condition J7 (Capital Expenditure Incentive and Safety Net). For each relevant year prior to the relevant year commencing 1 April 2012 and for each relevant year after the relevant year commencing 1 April 2012 the term $CxIncRA_t$ shall take the value zero.

IE_t means the allowance made in respect of the relevant year t representing the estimated costs incurred by the licensee in that relevant year in association with the issuance of new equity and shall take the value set out below:

IE_t in the Relevant Year commencing 1 April	2007	2008	2009	2010	2011
National Grid Electricity Transmission plc	Nil	Nil	Nil	Nil	Nil
Scottish Hydro-Electric Transmission Ltd	Nil	Nil	£3,250,000	£2,625,000	Nil
SP Transmission Ltd	Nil	Nil	Nil	£2,500,000	Nil

LC_t means the revenue adjustment term, whether of a positive or of a zero value, made in the relevant year commencing 1 April 2012 in respect of the full recovery of efficiently incurred logged up costs (adjusted for financing costs) as specified in paragraph 4 of this condition. For each relevant year prior to the relevant year commencing 1 April 2012 and for each relevant year after the relevant year commencing 1 April 2012 LC_t shall take the value zero.

$TOInc_t$ means, for each relevant year t, the aggregate of the annual revenue allowances for each transmission investment project specified in Annex A to special condition J12 (Adjustment to the Transmission Network Revenue Restriction due to Transmission Asset Owner Incentives) and shall be calculated in accordance with that special condition.

K_t means the revenue restriction correction factor, whether of a positive or of a negative value, which is calculated in accordance with the formula below:

$$K_t = (AR_{t-1} - TO_{t-1}) \times \left[1 + \frac{(I_t + PI_t)}{100} \right]$$

Where:

AR_{t-1} means, subject to paragraph 3 of special condition J6 (Restriction of transmission charges: adjustments), the regulated transmission revenue in respect of the relevant year t-1, except in the relevant

year commencing 1 April 2007 where AR_{t-1} shall be the regulated transmission revenue (CR_t) in the relevant year commencing 1 April 2006 as calculated in accordance with special condition J (Restriction of transmission charges) of this licence in the form in which it was in force at 31 March 2007.

TO_{t-1} means the allowed transmission owner revenue in the relevant year t-1 except in the relevant year commencing 1st April 2007 where it shall be the maximum regulated transmission revenue (TR_t) as defined by special condition J (Restriction of transmission charges) of this licence in the form in which it was in force at 31 March 2007.

I_t means the average specified rate (as defined under those words in special condition J1 (Restriction of Transmission Charges: Definitions)) in the relevant year t.

PI_t means the penalty interest rate in relevant year t which is equal to:

- (a) where $(AR_{t-1} - TO_{t-1})$ has a positive value and AR_{t-1} exceeds TO_{t-1} by more than two per cent, the value four; and
- (b) otherwise it shall take the value zero.

4 For the purposes of paragraph 3, LC_t shall comprise those costs incurred and reported to the Authority in accordance with standard condition B15 (Price Control Review Information), by the licensee against the following cost categories:

- (a) Net additional local infrastructure as a result of the licensee constructing a ‘firm’ (i.e. SQSS compliant) connection as opposed to a ‘non-firm’ single circuit connection for new generation connections in circumstances where

the relevant generator is requesting a connection capacity of less than 100 megawatts;

- (b) Upgrading of operational telecommunication systems resulting from the introduction of BT's 21st Century Networks programme;

subject to the licensee satisfying the Authority that such costs have been efficiently incurred.

Special Condition J12 – Adjustment to the Transmission Network Revenue Restriction due to Transmission Asset Owner Incentives

Part 1 – TO Incentives Revenue Adjustment Calculation

1. For each relevant year t, $TOInc_t$ shall be calculated in accordance with the following formula:

$$TOInc_t = \sum_{all\ i} TOInc_t^i$$

where:

$TOInc_t^i$ means the annual revenue allowance in relevant year t for each transmission investment project i specified in Annex A to this condition, and shall be calculated in accordance with paragraph 2.

2. For each relevant year t, the annual revenue allowance for each transmission investment project i specified in Annex A shall be calculated in accordance with the following formula:

$$TOInc_t^i = ConTOInc_t^i + CxIncTO_t^i - IntTORev_t^i$$

where:

-
- $ConTOInc_t^i$ means the annual pre-construction and construction revenue allowance for each transmission investment project i specified in Annex A for the relevant year t and shall be calculated in accordance with paragraph 3;
- $CxIncTO_t^i$ means the annual revenue adjustment term in respect of the application of the capital expenditure incentive regime for each transmission investment project i specified in Annex A for the relevant year t and shall be calculated in accordance with paragraph 5, and
- $IntTORev_t^i$ means the annual revenue allowance for which funding has already been allowed for each transmission investment project i specified in Annex A for the relevant year t , where such funding has been allowed under Part 2 of special condition J5 (Restriction of transmission charges: Total incentive revenue adjustment), and shall have the value of zero unless directed otherwise by the Authority in writing.

Calculation of revenue allowance, $ConTOInc_t$

3. For the purposes of paragraph 2, the term $ConTOInc_t^i$ shall be calculated in accordance with the following formula:

$$ConTOInc_t^i = CCTOInc \times (AAVConTOInc_t^i + AVAECOnTOInc_t^i) \times ARPI_t \\ + (ConTOIncDepn_t^i + AVAECOnTOIncDepn_t^i) \times ARPI_t$$

where:

$CCTOInc$ means the pre-tax cost of capital in real terms for the transmission investment project i for each relevant year t and for the purposes of this special condition shall take the value 6.25%;

$AAVConTOInc_t^i$ means the average asset value for the transmission investment project i for each of the relevant years 2010/11 to 2011/12 and shall have the value specified in Annex A for each relevant year, and where no value is specified in Annex A for a relevant year shall have the value of zero;

$AVAEConTOInc_t^i$ means one or more adjustments to the average asset value for the transmission investment project i for the relevant years 2010/11 to 2011/12 ($AAVConTOInc_t^i$) as a result of an asset value adjusting event and each adjustment shall be determined by the Authority in accordance with paragraph 4;

$ARPI_t$ means the price index adjustment, which in the relevant year commencing 1 April 2004 equals 1, and in all subsequent years is derived from the following formula:

$$ARPI_t = \left[1 + \frac{RPI_t}{100} \right] \times ARPI_{t-1}$$

Where:

RPI_t means the percentage change (whether of a positive or a negative value) in the arithmetic average of the Retail Price Index numbers published or determined with respect to each of the six months from January to July (both inclusive) in relevant year t-1 and that is published or determined with respect to the same months in relevant year t-2.

$ConTOIncDepn_t^i$ means the depreciation value for the transmission investment project i for each of the relevant years 2010/11 to 2011/12 and shall have the value specified in Annex A for each relevant year, and where no value is specified in Annex A for a relevant year shall have the value of zero, and

$AVAEConTOIncDepn_t^i$ means one or more adjustment to the depreciation value for the transmission investment project i for the relevant years 2010/11 to 2011/12 ($ConTOIncDepn_t^i$) as a result of an asset value adjusting event and each adjustment shall be determined by the Authority in accordance with paragraph 4.

Asset value adjusting event

4. (a) For the purpose of this paragraph, an asset value adjusting event means relevant additional preconstruction works or a relevant amendment to the scope of construction works, that the Authority is satisfied is expected to cause costs and/or expenses to be incurred or saved in relation to the transmission investment project i, where the Authority is satisfied that

those costs and expenses:

- (i) are expected to result in a material increase or decrease to the average asset value for the transmission investment project *i* for the relevant years 2010/11 to 2012/13 (ConTOInc_t^i);
 - (ii) are expected to be efficiently incurred or saved, and
 - (iii) can not otherwise be recovered under the revenue allowance provided by this condition or any other provision within the transmission licence.
- (b) For the purposes of subparagraph (a) –
- (i) “relevant additional preconstruction works” means an amendment to the scope of the preconstruction works expected to be carried out by the licensee during the relevant years 2010/11 to 2011/12 as a result of the terms and/or conditions of any statutory consent, approval or permission in respect of the transmission investment project *i* (including but not limited to planning consent); and
 - (ii) “relevant amendment to the scope of construction works” means an amendment to the scope of construction works that is necessary to comply with the terms and/or conditions of any statutory consent, approval or permission in respect of the transmission investment project *i* (including but not limited to planning consent).
- (c) Where the licensee considers, and can provide supporting evidence that, an asset value adjusting event has occurred in relation to the transmission investment project *i*, then the licensee shall give notice of that event to the

Authority as soon as is reasonably practicable after that event has occurred and in any event within three months after the end of the relevant year in which that event has occurred (or at such later date as the Authority notifies to the licensee for the purposes of this subparagraph).

- (d) A notice provided under subparagraph (c) shall give particulars of:
- (i) the asset value adjusting event to which the notice relates and the reason(s) why the licensee considers that event to be an asset value adjusting event;
 - (ii) the costs and/or expenses that the licensee can demonstrate are expected to be incurred or saved by that event and how the amount of those costs and/or expenses have been calculated;
 - (iii) the amount of any material increase or decrease in the average asset value for the transmission investment project i for relevant years 2010/11 to 2011/12 (ConTOInc _{i}) that the licensee can demonstrate is expected to occur as a result of that event and how the amount of that increase or decrease has been calculated;
 - (iv) the reasons why the licensee considers that the costs and/or expenses can not otherwise be recovered under the revenue allowance provided by this special condition;
 - (v) the amount of any AVAEEConTOInc _{i} ¹ adjustment proposed as a consequence of that event and how this AVAEEConTOInc _{i} ¹ adjustment has been calculated;
 - (vi) the amount of any increase or decrease in the depreciation value for the transmission investment project i for the relevant

years 2010/11 to 2011/12 (ConTOIncDepn_tⁱ) that the licensee can demonstrate is expected to occur as a result of that event and how the amount of that increase or decrease has been calculated;

- (vii) the amount of any AVAEConTOIncDepn_tⁱ adjustment proposed as a consequence of that event and how this AVAEConTOIncDepn_tⁱ adjustment has been calculated;
- (viii) relevant internal papers where revised expenditure has been requested and evidence of relevant contractual information between the licensee and any relevant contractor;
- (ix) a statement from independent technical advisers setting out the additional preconstruction works/amended scope of construction works (as appropriate) and a statement from independent auditors setting out that in their opinion the notice fairly presents the costs and expenses expected to be incurred or saved by the additional preconstruction works/amended scope of the construction works;
- (x) a statement on the impact of such an adjustment on the output measures associated with relevant transmission investment project i, and,
- (xi) any other analysis or information which the licensee considers to be relevant to the Authority's assessment of that event.

- (e) Where the Authority receives a notice under subparagraph (c), the Authority shall determine (after consultation with the licensee and such other persons it considers necessary):

- (i) whether an asset value adjusting event has occurred in respect of the transmission investment project i;
 - (ii) where the Authority determines that an asset value adjusting event has occurred in respect of the transmission investment project i, whether the transmission investment project i will remain economically efficient as a consequence of that asset value adjusting event;
 - (iii) a $AVAECOnTOInc_t^i$ adjustment in respect of the transmission investment project i; and
 - (iv) a $AVAECOnTOIncDepn_t^i$ adjustment in respect of the transmission investment project i;
- (f) Where the Authority determines under subparagraph (e) that an asset value adjusting event has occurred in respect of the transmission investment project i and that the transmission investment project i will remain economically efficient as a consequence of that asset value adjusting event, the $AVAECOnTOInc_t^i$ and $AVAECOnTOIncDepn_t^i$ adjustments in respect of the transmission investment project i determined by the Authority under subparagraph (e) shall be such as to ensure that the financial position and performance of the licensee is, insofar as is reasonably practicable, the same as if that asset value adjusting event had not occurred;
- (g) Where the Authority makes a determination under this paragraph, the Authority shall publish a notice stating the $AVAECOnTOInc_t^i$ and $AVAECOnTOIncDepn_t^i$ adjustments for the transmission investment project i and the reasons for the determination;
- (h) The Authority may revoke a determination made under this paragraph with

the consent of the licensee;

- (i) For the purpose of paragraph 3, the terms $AVAECOnTOInc_t^i$ and $AVAECOnTOIncDepn_t^i$ shall be the $AVAECOnTOInc_t^i$ and $AVAECOnTOIncDepn_t^i$ adjustments for the transmission investment project i determined by the Authority under subparagraph (e), and where the Authority has not made a determination under subparagraph (e) shall be zero; and
- (j) Where the licensee notifies the Authority of an asset value adjusting event under subparagraph (c), the licensee shall ensure that the costs and/or expenses that are the subject of that notification are not also notified to the Authority in relation to any other revenue recovery arrangements.

Incentive revenue adjustment

- 5. For the purpose of paragraph 2 of this condition, $CxIncTO_t$ shall in each relevant year t take the value of zero, except for the relevant year commencing 1 April 2012 in which $CxIncTO_t$ shall be calculated in accordance with the following formula:

$$CxIncTO_t = \sum_n [(TOCIR_n - 0.25) \times PVF_n \times TOIncDif_n \times PIT_t]$$

Where:

n means the relevant year n such that the first relevant year n shall be the year commencing on 1 April 2010 and accordingly the second relevant year n is the year commencing on 1 April 2011;

$TOCIR_n$ means the capital expenditure incentive sharing factor, in respect of the proportion of under or overspend against the capital expenditure allowance for the relevant year n in relation to the transmission investment projects specified in Annex A, that is borne by the licensee between relevant year n commencing 1 April 2010 and the end of relevant year n commencing 1 April 2011 and shall take the value set out in the table below:

Relevant year commencing 1 April	2010	2011
$TOCIR_n$	0.1118	0.0313

PVF_n means the present value adjustment factor in respect of the relevant year n and shall take the value set out in the table below:

Relevant year commencing 1 April	2010	2011
PVF_n	1.12891	1.06250

$TOIncDif_n$ represents the difference, expressed in 2004/05 prices, between the adjusted efficient capital expenditure and the capital expenditure allowance in respect of relevant year n , which shall represent the total

capital expenditure allowance across all projects i for each relevant year n and shall be calculated in accordance with the following formula:

$$TOIncDif_n = \left(\frac{TOIncACx_n}{PIT_n} \right) - TOIncBCx_n$$

Where:

$TOIncACx_n$ is the adjusted efficient capital expenditure incurred by the licensees in respect of the relevant year n and shall be calculated in accordance with paragraph 6 of this condition;

PIT_n shall take the value of PIT_t for relevant year $t=n$, where PIT_t shall take the same meaning as given in paragraph 3 of special condition D2 (Restriction on Transmission Network Revenue);

$TOIncBCx_n$ means the total capital expenditure allowance, comprised of the summation of capital expenditure across all relevant transmission investment projects specified in Annex A, expressed in 2004/05 prices in respect of the relevant year n , and shall take the value set out in the table below:

Total costs (£ million) 2008/09 prices	2009/10	2010/11	2011/12
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TOIncBC _{x_n}	0.0	10.8	5.2
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PIT_t shall take the same meaning as given in paragraph 3 of special condition D2 (Restriction on Transmission Network Revenue);

6. For the purposes of paragraph 5, TOIncAC_{x_n} shall be calculated in accordance with the following formula:

$$TOIncACx_n = TOIncCx_n - TOIncDCx_n$$

Where:

TOIncC_{x_n} means the capital expenditure, expressed net of pensions contributions incurred by the licensee in the relevant year n associated with the relevant transmission investment projects specified in Annex A of this condition, as reported to the Authority pursuant to standard condition B15 (Price Control Review Information), and

TOIncDC_{x_n} means the amount of capital expenditure incurred by the licensee in respect of the relevant year n, in respect of which the Authority has issued a direction on or before 31 March 2012 in respect of relevant year from 1 April 2010 to 31 March 2011 and on or before 31 March 2013 in respect of relevant year from 1 April 2011 to 31 March 2012, that such investment is deemed inefficient in accordance with paragraphs 7 and 8 of this condition. It shall take the value of zero unless the Authority directs otherwise.

7. For the purposes of paragraph 6, before issuing a direction that certain capital expenditure is deemed inefficient, the Authority shall issue a notice to the licensee, specifying:
 - (a) the amount of capital expenditure that the Authority proposes to deem inefficient;
 - (b) the reasons why the Authority considers that the capital expenditure referred to in sub-paragraph (a) is inefficient;
 - (c) the date, being of not less than 28 days from the date of the notice, by which the licensee may make representations to the Authority in respect of the notice; and
 - (d) the date by which the Authority intends to make a direction.
8. The Authority shall have regard to any representations made by the licensee in response to the notice referred to in paragraph 7 before making any direction in respect of paragraph 6.

**Part 2 - Information to be provided to the Authority in connection with
Transmission Asset Owner Incentives Projects**

9. For each transmission investment project i specified in Annex A to this condition, the licensee shall provide the Authority with the following:
 - (a) during or prior to relevant year $t=0$, a preconstruction technical report, accompanied by a statement from independent technical advisors, setting out:

- (i) the delivered output measures in the pre-construction period assessed against the forecast output measures in Annex A to this condition for the transmission investment project i; and
- (ii) the forecast output measures for the construction period assessed against the forecast output measures in Annex A to this condition for the transmission investment project i.

Not later than three months after the end of relevant years $t=1$ to $t=n$ (or such later date as the Authority notifies to the licensee for the purposes of this subparagraph

- (iii) a construction technical report, setting out the technical milestones achieved in respect of the preceding relevant year and the extent to which the transmission investment project i complies with the output measures and key project milestones specified in Annex A to this condition.
- (b) not later than three months after the end of relevant year $t=n$ (or such later date as the Authority notifies to the licensee for the purposes of this subparagraph):
- (i) a post construction technical report, accompanied by a construction completion certificate from independent technical advisors, setting out the actual capability of the transmission investment project i and the extent to which the transmission investment project i complies with the output measures specified in Annex A to this condition.

10. The Authority may require the licensee to provide it with such information in such form and within such time as it may reasonably request which is, in the Authority's opinion, necessary in order to carry out any of its functions under this condition.

11. (a) The output measures specified in Annex A to this condition may be amended in accordance with this paragraph.
- (b) For the purpose of this paragraph, an output measures adjusting event means a relevant amendment to the scope of the construction works (as defined in paragraph (4)(b)(ii) to this condition) which the Authority is satisfied is expected to cause a material change in the output measures specified in Annex A to this condition for the transmission investment project i.
- (c) Where the licensee considers, and can provide supporting evidence that, an output measures adjusting event has occurred in relation to the transmission investment project i, then the licensee shall give notice of that event to the Authority as soon as is reasonably practicable after that event has occurred and in any event within three months of the beginning of relevant year $t=0$ (or at such later date as the Authority notifies to the licensee for the purposes of this subparagraph).
- (d) A notice provided under subparagraph (c) shall be accompanied by a statement from independent technical advisors setting out the amended scope of construction works and shall give particulars of:
- (i) the output measures adjusting event to which the notice relates and the reason(s) why the licensee considers that event to be an output measures adjusting event;
 - (ii) output measures adjustment proposed as a consequence of that event and how this output measures adjustment has been calculated; and
 - (iii) any other analysis or information which the licensee considers to be relevant to the Authority's assessment of that event.

- (e) Where the Authority receives a notice under subparagraph (c), the Authority shall determine (after consultation with the licensee and such other persons it considers necessary):
 - (i) whether an output measures adjusting event has occurred in respect of the transmission investment project i; and
 - (ii) where the Authority determines that an output measures adjusting event has occurred in respect of the transmission investment project i, an output measures adjustment in respect of the transmission investment project.
- (f) Where the Authority makes a determination under this paragraph, the Authority shall publish a notice stating the output measures adjustment for the transmission investment project i and the reasons for the determination.
- (g) The Authority may revoke a determination made under this paragraph with the consent of the licensee.

Annex A to Special Condition J12: Supplementary Provisions

The Authority may direct changes to the pre-construction cost allowance and construction cost allowance in this Annex A to amend the project costs of relevant transmission investment projects and/or add project costs for new relevant transmission investment projects where the licensee provides notice to the Authority. Such notice shall give particulars of:

- (i) where appropriate, the reason(s) for amendments to the project costs of relevant transmission investment projects with supporting evidence;
- (ii) where appropriate, the needs case for new relevant transmission investment projects with supporting evidence;
- (iii) an up-to-date forecast of pre-construction and construction costs for the relevant transmission investment project; and
- (iv) a description of the output measures for the relevant transmission investment project in the form set out in this Annex A.

The Authority will consult with interested parties prior to issuing a direction.

Hunterston-Kintyre link**1. Pre-construction and Construction costs**

project costs (£ million) 2008/09 prices	2009/10	2010/11	2011/12
Pre-construction cost allowance	0.0	0.3	0.2
Construction cost allowance	0.0	0.0	0.0
Average asset value during construction period (AAVConTOInc _t ⁱ)	0.00	0.15	0.39
Depreciation during Construction (ConTOIncDepn _t ⁱ)	0.00	0.00	0.02

2. Output measures

To be inserted

Key projects milestones

	2009/10	2010/11	2011/12
Description of key project milestones in the pre- construction period			
Description of key project			

milestones in the construction period			
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SPT-NGET Interconnection**1. Pre-construction and Construction costs**

project costs (£ million) 2008/09 prices	2009/10	2010/11	2011/12
Pre-construction cost allowance	0.0	0.0	0.0
Construction cost allowance	0.0	5.0	0.0
Average asset value during construction period (AAVConTOInc _t ⁱ)	0.00	2.50	4.88
Depreciation during Construction (ConTOIncDepn _t ⁱ)	0.00	0.00	0.25

2. Output measures

To be inserted

Key projects milestones

	2009/10	2010/11	2011/12
Description of key project milestones in the pre- construction period			
Description of key project			

milestones in the construction period			
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Western HVDC link**1. Pre-construction and Construction costs**

project costs (£ million) 2008/09 prices	2009/10	2010/11	2011/12
Pre-construction cost allowance	0.0	5.5	5.0
Construction cost allowance	0.0	0.0	0.0
Average asset value during construction period (AAVConTOInc _t ⁱ)	0.00	2.75	7.86
Depreciation during Construction (ConTOIncDepn _t ⁱ)	0.00	0.00	0.28

2. Output measures

To be inserted

Key projects milestones

	2009/10	2010/11	2011/12
Description of key project milestones in the pre- construction period			
Description of key project			

milestones in the construction period			
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Proposed Licence Changes for SHETL

Special Condition J2 - Restriction of transmission charges : revenue from transmission owner services

- 1 The purpose of this condition is to establish the charge restriction that determines the allowed transmission owner revenue that the licensee may earn from its transmission owner services.

Part A: Transmission Owner Revenue Restriction

- 2 The licensee shall take all appropriate steps within its power to ensure that in any relevant year t , regulated transmission revenue shall not exceed the allowed transmission owner revenue calculated in accordance with the formula given in paragraph 3 below.

Formula for Allowed Transmission Owner Revenue (TO_t)

- 3 In respect of the relevant year commencing 1 April 2007 and each subsequent relevant year t , allowed transmission owner revenue shall be calculated in accordance with the following formula:

$$TO_t = PR_t + TIRG_t + PT_t + IP_t + CxIncRA_t + IE_t + LC_t + \mathbf{TOInc}_t - K_t$$

where:

TO_t means allowed transmission owner revenue in the relevant year t.

PR_t means base transmission revenue which, shall in respect of the relevant year commencing 1 April 2007 be calculated as:

$$PR_t = RBT \times PIT_t$$

where:

RBT shall take the value £47,000,000; and

PIT_t is the price index adjustment for the relevant year t, and in the relevant year commencing 1 April 2004 shall take the value of 1 and in each subsequent relevant year shall be derived from the following formula:

$$PIT_t = \left[1 + \frac{RPI_t}{100} \right] \times PIT_{t-1},$$

and, in the relevant year commencing 1 April 2008 and each subsequent relevant year PR_t shall be calculated in accordance with the following formula:

$$PR_t = PR_{t-1} \times \left(1 + \frac{RPI_t + X}{100} \right)$$

where:

RPI_t means the percentage change (whether of a positive or a negative value) in the arithmetic average of the Retail Price Index numbers published or determined with respect to each of the six months from July to December (both inclusive) in relevant year t-2 and the arithmetic average of the Retail Price Index numbers published or determined with respect to the same months in relevant year t-1; and

X shall take the value of two (“2”).

$TIRG_t$ means, for each TIRG relevant year t, the aggregate of the annual revenue allowances for each transmission investment project specified in Schedule C and calculated in accordance with special condition J3 (Restriction of transmission charges: Transmission Investment for Renewable Generation);.

PT_t means the revenue adjustment term, whether of a positive or of a negative value, made in the relevant year t in respect of allowed pass through items as derived in accordance with special condition J4 (Restriction of transmission charges: Allowed pass-through items);

IP_t means the total amount of incentive revenue, whether of a positive or of a negative value, calculated for the relevant year t in accordance with Special condition J5 (Restriction of transmission charges: Total incentive revenue adjustment);

$CxIncRA_t$ means the revenue adjustment term, whether of a positive or of a negative value, made in the relevant year commencing 1 April 2012 in respect of the application of the capital expenditure incentive regime as calculated in accordance with special condition J7 (Capital Expenditure Incentive and Safety Net). For each

relevant year prior to the relevant year commencing 1 April 2012 and for each relevant year after the relevant year commencing 1 April 2012 the term $CxIncRA_t$ shall take the value zero.

IE_t means the allowance made in respect of the relevant year t representing the estimated costs incurred by the licensee in that relevant year in association with the issuance of new equity and shall take the value set out below:

IE_t in the Relevant Year commencing 1 April	2007	2008	2009	2010	2011
National Grid Electricity Transmission plc	Nil	Nil	Nil	Nil	Nil
Scottish Hydro-Electric Transmission Ltd	Nil	Nil	£3,250,000	£2,625,000	Nil
SP Transmission Ltd	Nil	Nil	Nil	£2,500,000	Nil

LC_t means the revenue adjustment term, whether of a positive or of a negative value, made in the relevant year commencing 1 April 2012 in respect of the full recovery of efficiently incurred logged up costs (adjusted for financing costs) as specified in paragraph 4

of this condition. For each relevant year prior to the relevant year commencing 1 April 2012 and for each relevant year after the relevant year commencing 1 April 2012 LC_t shall take the value zero.

$TOInc_t$ means, for each relevant year t, the aggregate of the annual revenue allowances for each transmission investment project specified in Annex A to special condition J12 (Adjustment to the Transmission Network Revenue Restriction due to Transmission Asset Owner Incentives) and shall be calculated in accordance with that special condition.

K_t means the revenue restriction correction factor, whether of a positive or of a negative value, which is calculated in accordance with the formula below:

$$K_t = (AR_{t-1} - TO_{t-1}) \times \left[1 + \frac{(I_t + PI_t)}{100} \right]$$

Where:

AR_{t-1} means, subject to paragraph 3 of special condition J6 (Restriction of transmission charges: adjustments), the regulated transmission revenue in respect of the relevant year t-1, except in the relevant year commencing 1 April 2007 where AR_{t-1} shall be the regulated transmission revenue (CR_t) in the relevant year commencing 1 April 2006 as calculated in accordance with special condition J

(Restriction of transmission charges) of this licence in the form in which it was in force at 31 March 2007.

TO_{t-1} means the allowed transmission owner revenue in the relevant year t-1 except in the relevant year commencing 1st April 2007 where it shall be the maximum regulated transmission revenue (TR_t) as defined by special condition J (Restriction of transmission charges) of this licence in the form in which it was in force at 31 March 2007.

I_t means the average specified rate (as defined under those words in special condition J1 (Restriction of Transmission Charges: Definitions)) in the relevant year t.

PI_t means the penalty interest rate in relevant year t which is equal to:

(c) where $(AR_{t-1} - TO_{t-1})$ has a positive value and AR_{t-1} exceeds TO_{t-1} by more than two per cent, the value four; and

(d) otherwise it shall take the value zero.

4 For the purposes of paragraph 3, LC_t shall comprise those costs incurred and reported to the Authority in accordance with standard condition B15 (Price Control Review Information), by the licensee against the following cost categories:

(a) Net additional local infrastructure as a result of the licensee constructing a ‘firm’ (i.e. SQSS compliant) connection as opposed to a ‘non-firm’ single circuit connection for new generation connections in circumstances where the relevant generator is requesting a connection capacity of less than 100 megawatts;

- (b) Upgrading of operational telecommunication systems resulting from the introduction of BT's 21st Century Networks programme;

subject to the licensee satisfying the Authority that such costs have been efficiently incurred.

Special Condition J12 – Adjustment to the Transmission Network Revenue Restriction due to Transmission Asset Owner Incentives

Part 1 – TO Incentives Revenue Adjustment Calculation

1. For each relevant year t, $TOInc_t$ shall be calculated in accordance with the following formula:

$$TOInc_t = \sum_{all\ i} TOInc_t^i$$

where:

$TOInc_t^i$ means the annual revenue allowance in relevant year t for each transmission investment project i specified in Annex A to this condition, and shall be calculated in accordance with paragraph 2.

2. For each relevant year t, the annual revenue allowance for each transmission investment project i specified in Annex A shall be calculated in accordance with the following formula:

$$TOInc_t^i = ConTOInc_t^i + CxIncTO_t^i - IntTORev_t^i$$

where:

- $ConTOInc_t^i$ means the annual pre-construction and construction revenue allowance for each transmission investment project i specified in Annex A for the relevant year t and shall be calculated in accordance with paragraph 3;
- $CxIncTO_t^i$ means the annual revenue adjustment term in respect of the application of the capital expenditure incentive regime for each transmission investment project i specified in Annex A for the relevant year t and shall be calculated in accordance with paragraph 5, and
- $IntTORev_t^i$ means the annual revenue allowance for which funding has already been allowed for each transmission investment project i specified in Annex A for the relevant year t , where such funding has been allowed under Part 2 of special condition J5 (Restriction of transmission charges: Total incentive revenue adjustment), and shall have the value of zero unless directed otherwise by the Authority in writing.

Calculation of revenue allowance, $ConTOInc_t$

3. For the purposes of paragraph 2, the term $ConTOInc_t^i$ shall be calculated in accordance with the following formula:

$$ConTOInc_t^i = CCTOInc \times (AAVConTOInc_t^i + AVAECOnTOInc_t^i) \times ARPI_t + (ConTOIncDepn_t^i + AVAECOnTOIncDepn_t^i) \times ARPI_t$$

where:

CCTOInc means the pre-tax cost of capital in real terms for the transmission investment project *i* for each relevant year *t* and for the purposes of this special condition shall take the value 6.25%;

AAVConTOInc_tⁱ means the average asset value for the transmission investment project *i* for each of the relevant years 2010/11 to 2011/12 and shall have the value specified in Annex A for each relevant year, and where no value is specified in Annex A for a relevant year shall have the value of zero.

AVAEConTOInc_tⁱ means one or more adjustments to the average asset value for the transmission investment project *i* for the relevant years 2010/11 to 2011/12 (AAVConTOInc_tⁱ) as a result of an asset value adjusting event and each adjustment shall be determined by the Authority in accordance with paragraph 4;

ARPI_t means the price index adjustment, which in the relevant year commencing 1 April 2004 equals 1, and in all subsequent years is derived from the following formula:

$$ARPI_t = \left[1 + \frac{RPI_t}{100} \right] \times ARPI_{t-1}$$

Where:

RPI_t means the percentage change (whether of a positive or a negative value) in the arithmetic average of the Retail Price Index numbers published or determined with respect to each of the six months from January to July (both inclusive) in relevant year t-1 and that is published or determined with respect to the same months in relevant year t-2.

$ConTOIncDepn_t^i$ means the depreciation value for the transmission investment project i for each of the relevant years 2010/11 to 2011/12 and shall have the value specified in Annex A for each relevant year, and where no value is specified in Annex A for a relevant year shall have the value of zero, and

$AVAEConTOIncDepn_t^i$ means one or more adjustment to the depreciation value for the transmission investment project i for the relevant years 2010/11 to 2011/12 ($ConTOIncDepn_t^i$) as a result of an asset value adjusting event and each adjustment shall be determined by the Authority in accordance with paragraph 4.

Asset value adjusting event

4. (a) For the purpose of this paragraph, an asset value adjusting event means relevant additional preconstruction works or a relevant amendment to the scope of construction works, that the Authority is satisfied is expected to cause costs and/or expenses to be incurred or saved in relation to the

transmission investment project i , where the Authority is satisfied that those costs and expenses:

- (i) are expected to result in a material increase or decrease to the average asset value for the transmission investment project i for the relevant years 2010/11 to 2012/13 (ConTOInc_t^i);
 - (ii) are expected to be efficiently incurred or saved, and
 - (iii) can not otherwise be recovered under the revenue allowance provided by this condition or any other provision within the transmission licence.
- (b) For the purposes of subparagraph (a) –
- (i) “relevant additional preconstruction works” means an amendment to the scope of the preconstruction works expected to be carried out by the licensee during the relevant years 2010/11 to 2011/12 as a result of the terms and/or conditions of any statutory consent, approval or permission in respect of the transmission investment project i (including but not limited to planning consent); and
 - (ii) “relevant amendment to the scope of construction works” means an amendment to the scope of construction works that is necessary to comply with the terms and/or conditions of any statutory consent, approval or permission in respect of the transmission investment project i (including but not limited to planning consent).
- (c) Where the licensee considers, and can provide supporting evidence that, an asset value adjusting event has occurred in relation to the transmission

investment project i , then the licensee shall give notice of that event to the Authority as soon as is reasonably practicable after that event has occurred and in any event within three months after the end of the relevant year in which that event has occurred (or at such later date as the Authority notifies to the licensee for the purposes of this subparagraph).

- (d) A notice provided under subparagraph (c) shall give particulars of:
- (i) the asset value adjusting event to which the notice relates and the reason(s) why the licensee considers that event to be an asset value adjusting event;
 - (ii) the costs and/or expenses that the licensee can demonstrate are expected to be incurred or saved by that event and how the amount of those costs and/or expenses have been calculated;
 - (iii) the amount of any material increase or decrease in the average asset value for the transmission investment project i for relevant years 2010/11 to 2011/12 (ConTOInc_t^i) that the licensee can demonstrate is expected to occur as a result of that event and how the amount of that increase or decrease has been calculated;
 - (iv) the reasons why the licensee considers that the costs and/or expenses can not otherwise be recovered under the revenue allowance provided by this special condition;
 - (v) the amount of any AVAECOnTOInc_t^i adjustment proposed as a consequence of that event and how this AVAECOnTOInc_t^i adjustment has been calculated;
 - (vi) the amount of any increase or decrease in the depreciation

- value for the transmission investment project i for the relevant years 2010/11 to 2011/12 (ConTOIncDepn_t^i) that the licensee can demonstrate is expected to occur as a result of that event and how the amount of that increase or decrease has been calculated;
- (vii) the amount of any $\text{AVAECOnTOIncDepn}_t^i$ adjustment proposed as a consequence of that event and how this $\text{AVAECOnTOIncDepn}_t^i$ adjustment has been calculated;
- (viii) relevant internal papers where revised expenditure has been requested and evidence of relevant contractual information between the licensee and any relevant contractor;
- (ix) a statement from independent technical advisers setting out the additional preconstruction works/amended scope of construction works (as appropriate) and a statement from independent auditors setting out that in their opinion the notice fairly presents the costs and expenses expected to be incurred or saved by the additional preconstruction works/amended scope of the construction works;
- (x) a statement on the impact of such an adjustment on the output measures associated with relevant transmission investment project i , and,
- (xi) any other analysis or information which the licensee considers to be relevant to the Authority's assessment of that event.
- (e) Where the Authority receives a notice under subparagraph (c), the Authority shall determine (after consultation with the licensee and such other persons it considers necessary):

- (i) whether an asset value adjusting event has occurred in respect of the transmission investment project i;
 - (ii) where the Authority determines that an asset value adjusting event has occurred in respect of the transmission investment project i, whether the transmission investment project i will remain economically efficient as a consequence of that asset value adjusting event;
 - (iii) a $AVAECOnTOInc_t^i$ adjustment in respect of the transmission investment project i; and
 - (iv) a $AVAECOnTOIncDepn_t^i$ adjustment in respect of the transmission investment project i;
- (f) Where the Authority determines under subparagraph (e) that an asset value adjusting event has occurred in respect of the transmission investment project i and that the transmission investment project i will remain economically efficient as a consequence of that asset value adjusting event, the $AVAECOnTOInc_t^i$ and $AVAECOnTOIncDepn_t^i$ adjustments in respect of the transmission investment project i determined by the Authority under subparagraph (e) shall be such as to ensure that the financial position and performance of the licensee is, insofar as is reasonably practicable, the same as if that asset value adjusting event had not occurred;
- (g) Where the Authority makes a determination under this paragraph, the Authority shall publish a notice stating the $AVAECOnTOInc_t^i$ and $AVAECOnTOIncDepn_t^i$ adjustments for the transmission investment project i and the reasons for the determination;
- (h) The Authority may revoke a determination made under this paragraph with

the consent of the licensee;

- (i) For the purpose of paragraph 3, the terms $AVAECOnTOInc_t^i$ and $AVAECOnTOIncDepn_t^i$ shall be the $AVAECOnTOInc_t^i$ and $AVAECOnTOIncDepn_t^i$ adjustments for the transmission investment project i determined by the Authority under subparagraph (e), and where the Authority has not made a determination under subparagraph (e) shall be zero; and
- (j) Where the licensee notifies the Authority of an asset value adjusting event under subparagraph (c), the licensee shall ensure that the costs and/or expenses that are the subject of that notification are not also notified to the Authority in relation to any other revenue recovery arrangements.

Incentive revenue adjustment

- 5. For the purpose of paragraph 2 of this condition, $CxIncTO_t$ shall in each relevant year t take the value of zero, except for the relevant year commencing 1 April 2012 in which $CxIncTO_t$ shall be calculated in accordance with the following formula:

$$CxIncTO_t = \sum_n [(TOCIR_n - 0.25) \times PVF_n \times TOIncDif_n \times PIT_t]$$

Where:

n means the relevant year n such that the first relevant year n shall be the year commencing on 1 April 2010 and accordingly the second relevant year n is the year commencing on 1 April 2011;

$TOCIR_n$ means the capital expenditure incentive sharing factor, in respect of the proportion of under or overspend against the capital expenditure allowance for the relevant year n in relation to the transmission investment projects specified in Annex A, that is borne by the licensee between relevant year n commencing 1 April 2010 and the end of relevant year n commencing 1 April 2011 and shall take the value set out in the table below:

Relevant year commencing 1 April	2010	2011
$TOCIR_n$	0.1118	0.0313

PVF_n means the present value adjustment factor in respect of the relevant year n and shall take the value set out in the table below:

Relevant year commencing 1 April	2010	2011
PVF_n	1.12891	1.06250

$TOIncDif_n$ represents the difference, expressed in 2004/05 prices, between the adjusted efficient capital expenditure and the capital expenditure allowance in respect of relevant year n , which shall represent the total

capital expenditure allowance across all projects i for each relevant year n and shall be calculated in accordance with the following formula:

$$TOIncDif_n = \left(\frac{TOIncACx_n}{PIT_n} \right) - TOIncBCx_n$$

Where:

$TOIncACx_n$ is the adjusted efficient capital expenditure incurred by the licensees in respect of the relevant year n and shall be calculated in accordance with paragraph 6 of this condition;

PIT_n shall take the value of PIT_t for relevant year $t=n$, where PIT_t shall take the same meaning as given in paragraph 3 of special condition D2 (Restriction on Transmission Network Revenue);

$TOIncBCx_n$ means the total capital expenditure allowance, comprised of the summation of capital expenditure across all relevant transmission investment projects specified in Annex A, expressed in 2004/05 prices in respect of the relevant year n , and shall take the value set out in the table below:

Total costs (£ million) 2008/09 prices	2009/10	2010/11	2011/12

TOIncBC _{x_n}	11.0	60.0	39.8
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PIT_t shall take the same meaning as given in paragraph 3 of special condition D2 (Restriction on Transmission Network Revenue);

6. For the purposes of paragraph 5, TOIncAC_{x_n} shall be calculated in accordance with the following formula:

$$TOIncACx_n = TOIncCx_n - TOIncDCx_n$$

Where:

TOIncC_{x_n} means the capital expenditure, expressed net of pensions contributions incurred by the licensee in the relevant year n associated with the relevant transmission investment projects specified in Annex A of this condition, as reported to the Authority pursuant to standard condition B15 (Price Control Review Information), and

TOIncDC_{x_n} means the amount of capital expenditure incurred by the licensee in respect of the relevant year n, in respect of which the Authority has issued a direction on or before 31 March 2012 in respect of relevant year from 1 April 2010 to 31 March 2011 and on or before 31 March 2013 in respect of relevant year from 1 April 2011 to 31 March 2012, that such investment is deemed inefficient in accordance with paragraphs 7 and 8 of this condition. It shall take the value of zero unless the Authority directs otherwise.

7. For the purposes of paragraph 6, before issuing a direction that certain capital expenditure is deemed inefficient, the Authority shall issue a notice to the licensee, specifying:
 - (a) the amount of capital expenditure that the Authority proposes to deem inefficient;
 - (b) the reasons why the Authority considers that the capital expenditure referred to in sub-paragraph (a) is inefficient;
 - (c) the date, being of not less than 28 days from the date of the notice, by which the licensee may make representations to the Authority in respect of the notice; and
 - (d) the date by which the Authority intends to make a direction.
8. The Authority shall have regard to any representations made by the licensee in response to the notice referred to in paragraph 7 before making any direction in respect of paragraph 6.

**Part 2 - Information to be provided to the Authority in connection with
Transmission Asset Owner Incentives Projects**

9. For each transmission investment project i specified in Annex A to this condition, the licensee shall provide the Authority with the following:
 - (a) during or prior to the relevant year $t=0$, a preconstruction technical report, accompanied by a statement from independent technical advisors, setting out:

- (i) the delivered output measures in the pre-construction period assessed against the forecast output measures in Annex A to this condition for the transmission investment project i; and
- (ii) the forecast output measures for the construction period assessed against the forecast output measures in Annex A to this condition for the transmission investment project i.

Not later than three months after the end of relevant years $t=1$ to $t=n$ (or such later date as the Authority notifies to the licensee for the purposes of this subparagraph

- (iii) a construction technical report, setting out the technical milestones achieved in respect of the preceding relevant year and the extent to which the transmission investment project i complies with the output measures and key project milestones specified in Annex A to this condition.

(b) not later than three months after the end of relevant year $t=n$ (or such later date as the Authority notifies to the licensee for the purposes of this subparagraph):

- (i) a post construction technical report, accompanied by a construction completion certificate from independent technical advisors, setting out the actual capability of the transmission investment project i and the extent to which the transmission investment project i complies with the output measures specified in Annex A to this condition.

10. The Authority may require the licensee to provide it with such information in such form and within such time as it may reasonably request which is, in the Authority's opinion, necessary in order to carry out any of its functions under this condition.

11. (a) The output measures specified in Annex A to this condition may be amended in accordance with this paragraph.
- (b) For the purpose of this paragraph, an output measures adjusting event means a relevant amendment to the scope of the construction works (as defined in paragraph (4)(b)(ii) to this condition) which the Authority is satisfied is expected to cause a material change in the output measures specified in Annex A to this condition for the transmission investment project i.
- (c) Where the licensee considers, and can provide supporting evidence that, an output measures adjusting event has occurred in relation to the transmission investment project i, then the licensee shall give notice of that event to the Authority as soon as is reasonably practicable after that event has occurred and in any event within three months of the beginning of relevant year $t=0$ (or at such later date as the Authority notifies to the licensee for the purposes of this subparagraph).
- (d) A notice provided under subparagraph (c) shall be accompanied by a statement from independent technical advisors setting out the amended scope of construction works and shall give particulars of:
- (i) the output measures adjusting event to which the notice relates and the reason(s) why the licensee considers that event to be an output measures adjusting event;
 - (ii) output measures adjustment proposed as a consequence of that event and how this output measures adjustment has been calculated; and
 - (iii) any other analysis or information which the licensee considers to be relevant to the Authority's assessment of that event.

- (e) Where the Authority receives a notice under subparagraph (c), the Authority shall determine (after consultation with the licensee and such other persons it considers necessary):
 - (i) whether an output measures adjusting event has occurred in respect of the transmission investment project i; and
 - (ii) where the Authority determines that an output measures adjusting event has occurred in respect of the transmission investment project i, an output measures adjustment in respect of the transmission investment project.
- (f) Where the Authority makes a determination under this paragraph, the Authority shall publish a notice stating the output measures adjustment for the transmission investment project i and the reasons for the determination.
- (g) The Authority may revoke a determination made under this paragraph with the consent of the licensee.

Annex A to Special Condition J12: Supplementary Provisions

The Authority may direct changes to the pre-construction cost allowance and construction cost allowance in this Annex A to amend the project costs of relevant transmission investment projects and/or add project costs for new relevant transmission investment projects where the licensee provides notice to the Authority. Such notice shall give particulars of:

- (i) where appropriate, the reason(s) for amendments to the project costs of relevant transmission investment projects with supporting evidence;
- (ii) where appropriate, the needs case for new relevant transmission investment projects with supporting evidence;
- (iii) an up-to-date forecast of pre-construction and construction costs for the relevant transmission investment project; and
- (iv) a description of the output measures for the relevant transmission investment project in the form set out in this Annex A.

The Authority will consult with interested parties prior to issuing a direction.

Beauly-Blackhillock-Kintore**1. Pre-construction and Construction costs**

project costs (£ million) 2008/09 prices	2009/10	2010/11	2011/12
Pre-construction cost allowance	0.0	0.0	0.0
Construction cost allowance	5.1	13.0	3.0
Average asset value during construction period (AAVConTOInc _t ⁱ)	2.55	11.49	18.92
Depreciation during Construction (ConTOIncDepn _t ⁱ)	0.00	0.25	0.91

2. Output measures

To be inserted

Key projects milestones

	2009/10	2010/11	2011/12
Description of key project milestones in the pre- construction period			
Description of key project			

milestones in the construction period			
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Beaully-Dounreay**1. Pre-construction and Construction costs**

project costs (£ million) 2008/09 prices	2009/10	2010/11	2011/12
Pre-construction cost allowance	0.0	0.0	0.0
Construction cost allowance	0.0	21.3	24.0
Average asset value during construction period (AAVConTOInc _t ⁱ)	0.00	10.64	32.75
Depreciation during Construction (ConTOIncDepn _t ⁱ)	0.00	0.00	1.06

2. Output measures

To be inserted

Key projects milestones

	2009/10	2010/11	2011/12
Description of key project milestones in the pre- construction period			
Description of key project			

milestones in the construction period			
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Eastern HVDC link**1. Pre-construction and Construction costs**

project costs (£ million) 2008/09 prices	2009/10	2010/11	2011/12
Pre-construction cost allowance	0.0	0.8	2.8
Construction cost allowance	0.0	0.0	0.0
Average asset value during construction period (AAVConTOInc _t ⁱ)	0.00	0.38	2.14
Depreciation during Construction (ConTOIncDepn _t ⁱ)	0.00	0.00	0.04

2. Output measures

To be inserted

Key projects milestones

	2009/10	2010/11	2011/12
Description of key project milestones in the pre- construction period			
Description of key project			

milestones in the construction period			
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Knocknagael**1. Pre-construction and Construction costs**

project costs (£ million) 2008/09 prices	2009/10	2010/11	2011/12
Pre-construction cost allowance	0.0	0.0	0.0
Construction cost allowance	5.9	24.9	10.0
Average asset value during construction period (AAVConTOInc _t ⁱ)	2.93	18.16	34.68
Depreciation during Construction (ConTOIncDepn _t ⁱ)	0.00	0.29	1.54

2. Output measures

To be inserted

Key projects milestones

	2009/10	2010/11	2011/12
Description of key project milestones in the pre- construction period			
Description of key project			

milestones in the construction period			
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