Making a positive difference
for energy consumers

To:
ET Licensees: National Grid Electricity Transmission Plc; Scottish Power Transmission Ltd; Scottish Hydro Electric Transmission Plc

Electricity Act 1989
Section 11A (2)

Notice of statutory consultation on a proposal to modify the Special Conditions of the Electricity Transmission Licence held by the above licensee

1. The Gas and Electricity Markets Authority ('the Authority')[1] proposes to modify the Electricity Transmission Licence held by the above licensees ("the licensees"), granted or treated as granted under 6(1)(b) of the Electricity Act 1989 by amending Special Condition 3.36 (Opex Escalator).

2. Further detail on the reasons for and effects of the proposed modification can be found on our website at Opex Escalator Licence Amendment Reasons, alternatively they are available from foi@ofgem.gov.uk. The full text of the proposed modification is set out below with the amendments to Special Condition 3.36 (Opex Escalator) shown as a strike through.

3. Any representations with respect to the proposed licence modification must be made on or before 27 September 2021 to: Mark Cassidy, Office of Gas and Electricity Markets, 10 South Colonnade, Canary Wharf, London, E14 4PU or by email to mark.cassidy@ofgem.gov.uk.

4. We normally publish all responses on our website. However, if you do not wish your response to be made public then please clearly mark it as not for publication. We prefer to receive responses in an electronic form so they can be placed easily on our website.

5. If we decide to make the proposed modification it will take effect not less than 56 days after the decision is published.

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Min Zhu
Deputy Director
Duly authorised on behalf of the
Gas and Electricity Markets Authority **27/08/2021**

[1] The terms "the Authority", "we" and "us" are used interchangeably in this document.

The Office of Gas and Electricity Markets
10 South Colonnade, Canary Wharf, London, E14 4PU **Tel** 020 7901 7000
www.ofgem.gov.uk

Special Condition 3.36 Opex Escalator (OE_t)

Introduction

3.36.1 The purpose of this condition is to calculate the term OE_t (the opex escalator term). This contributes to the calculation of the Totex Allowance.

3.36.2 The effect is to provide an additional allowance for operating expenditure where capital expenditure has been provided under particular uncertainty mechanisms.

Formula for calculating the opex escalator term (OE_t)

3.36.3 The value of OE_t is derived in accordance with following formula:

$$OE_t = NOCA_t + CAIA_t$$

where:

NOCAt is the network operating costs uplift allowance derived in accordance with paragraph 3.36.4; and

CAIAt is the closely associated indirect uplift allowance derived in accordance with paragraph 3.36.5.

3.36.4 The value of $NOCA_t$ is derived in accordance with the following formula:

$$NOCA_t = \sum_i \left[('2025/26' - \mathrm{t} + 1) \cdot 0.5\% \cdot UMTERMA_{i,t}\right]$$

where

i refers to an individual project;

$('2025/26' - t + 1)$ means the number of Regulatory Years remaining in the Price Control Period, including Regulatory Year t; and

UMTERMAi,t is the total direct capex allowance for project i, energising in Regulatory Year t, provided by the following terms:

GCE_t in Special Condition 3.11 (Generation Connections volume driver);

DRI_t in Special Condition 3.12 (Demand Connections volume driver);

~~$LOTIRE_t$ in Special Condition 3.13 (Large onshore transmission investment Re-opener);~~

$MSIPRE_t$ in Special Condition 3.14 (Medium Sized Investment Projects Re-opener and Price Control Deliverable);

WWV_t in Special Condition 3.30 (Wider Works Volume Driver);

TCR_t in Special Condition 3.34 (Tyne Crossing Project Re-opener); and

BRG_t in Special Condition 3.35 (Bengeworth Road GSP Project Price Control Deliverable).

3.36.5 The value of $CAIA_t$ is derived in accordance with the following formula:

$$CAIA_t = 73.4\% \cdot BCAI \cdot \frac{UMTERMB_t}{BCAPEX}$$

where:

$UMTERMB_t$	is derived in accordance with paragraph 3.36.6;
BCAI	means the baseline allowance for closely associated indirect opex and has the value £829.7m; and
BCAPEX	means the baseline allowance for capex and has the value £3606.0m.

3.36.6 The value of $UMTERMB_t$ is derived in accordance with the following formula:

$$UMTERMB_t = VIMREt + GCE_t + DRI_t ~~+ LOTIRE_t~~ + MSIPRE_t + WWV_t + FWRt + CWRt + TSFt + TCR_t + BRG_t$$

where:

$VIMRE_t$	is derived in accordance with Part A of Special Condition 3.10 (Visual Impact Mitigation Re-opener and Price Control Deliverable and Enhancing Pre-existing Infrastructure Projects allowance);
GCE_t	is derived in accordance with Part A of Special Condition 3.11 (Generation Connections volume driver);
DRI_t	is derived in accordance with Part A of Special Condition 3.12 (Demand Connections volume driver);
~~$LOTIRE_t$~~	~~has the meaning given in Part A of Special Condition 3.13 (Large onshore transmission investment Re-opener);~~
$MSIPRE_t$	is derived in accordance with Part A of Special Condition 3.14 (Medium Sized Investment Projects Re-opener and Price Control Deliverable);
WWV_t	is derived in accordance with Part A of Special Condition 3.30 (Wider Works Volume Driver);
FWR_t	has the value zero unless directed otherwise in accordance with Special Condition 3.31 (Fibre Wrap Replacement Re-opener);
CWR_t	has the value zero unless directed otherwise in accordance with Special Condition 3.32 (Civil Related Works Re-opener);
TSF_t	has the value zero unless directed otherwise in accordance with Special Condition 3.33 (Tower Steelworks and Foundations Re-opener);
TCR_t	has the value zero unless directed otherwise in accordance with Special Condition 3.34 (Tyne Crossing Project Re-opener); and
BRG_t	is derived in accordance with Part A of Special Condition 3.35 (Bengeworth Road GSP Project Price Control Deliverable).

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