

## NOTICE UNDER SECTION 11(2) OF THE ELECTRICITY ACT 1989

The Gas and Electricity Markets Authority (“the Authority”) hereby gives notice pursuant to section 11(2) of the Electricity Act 1989 (“the Act”) as follows:

1. The Authority proposes to modify the special licence conditions of the transmission licence (“the Licence”) treated as granted to National Grid Electricity Transmission plc (“the Licensee”) under section 6(1)(b) of the Act by:
  - (a) amending special licence condition AA5A (Revised Restrictions on Revenue) (part 1) by inserting a “TIRG<sub>r</sub>” term in the transmission network revenue restriction formula so as to allow the Licensee’s maximum revenue allowance to be adjusted to enable recovery of costs related to specified transmission investment for renewable generation (“TIRG”) projects;
  - (b) amending special licence condition AA5A (Revised Restrictions on Revenue) (part 1) by inserting a definition of “TIRG<sub>r</sub>” as a consequence of the proposed modification outlined in paragraph (a) above;
  - (c) inserting a new special licence condition AA5G (Adjustment to Transmission Network Revenue Restriction due to Transmission Investment for Renewable Generation) which sets out how the TIRG<sub>r</sub> component of the transmission network revenue restriction formula will be calculated in a relevant year;
  - (d) inserting a new schedule B (Supplementary provisions to special licence condition AA5G and special licence condition AA5H) which sets out the forecast costs, asset values and output measures for each specified TIRG project that will be required in order to calculate TIRG<sub>r</sub> in a relevant year;
  - (e) inserting a new special condition AA5H (Information to be provided to the Authority in connection with Transmission Investment for Renewable Generation) which sets out the supporting information provision obligations of the Licensee in relation to the TIRG revenue allowance mechanism;

- (f) amending special licence condition AA5 (Revenue Restrictions Conditions – Definitions) such that the definitions set out in this special licence condition apply to the new special licence conditions AA5G and AA5H and the new schedule B as a consequence of the proposed modifications outlined above;
  - (g) amending special licence condition AA5 (Revenue Restrictions Conditions – Definitions) by inserting a definition of “TIRG relevant year” as a consequence of the proposed modifications outlined above; and
  - (h) amending the definition of “transmission network revenue restriction” in special licence condition AA5 (Revenue Restrictions Conditions – Definitions) such that the term includes the TIRG revenue allowance as a consequence of the proposed modifications outlined above.
2. The reasons why the Authority proposes to make these licence modifications were published by the Authority in a document entitled “Transmission investment for renewable generation. Final proposals, December 2004”. This document is available free of charge from the Ofgem Research and Information Centre, 9 Millbank, London SW1P 3GE (0207 901 7003) or from the Ofgem website at [www.ofgem.gov.uk](http://www.ofgem.gov.uk).
  3. In summary the effect of the proposed licence modifications is to allow additional revenue to be recovered by the Licensee for the purpose of funding specified TIRG projects. The proposed licence modifications amend the transmission network revenue restriction formula in special licence condition AA5A by including a new TIRG component. The details of how the TIRG component of this formula is to be calculated in any relevant year is then set out in a new special licence condition AA5G and a new schedule B, with supporting information provision obligations set out in a new special licence condition AA5H. Consequential amendments are then made to special licence condition AA5 and special licence condition AA5A.
  4. The proposed licence modifications are set out in Appendix 1 of this notice.
  5. Any representations or objections to the proposed licence modifications may be made before 25 November 2005 and sent to:

Robert Hull  
Director, Transmission  
Ofgem  
9 Millbank  
London SW1P 3GE

or by e-mail to [amrik.bal@ofgem.gov.uk](mailto:amrik.bal@ofgem.gov.uk)

A handwritten signature in black ink, appearing to read 'R Hull', written in a cursive style.

Robert Hull  
Director, Transmission  
Authorised on behalf of the Authority

28 October 2005

## APPENDIX 1

### NOTICE UNDER SECTION 11(2) OF THE ELECTRICITY ACT 1989

#### MODIFICATION OF EXISTING PROVISIONS OF THE TRANSMISSION LICENCE

1 Special condition AA5 shall be amended by substituting “in special conditions AA5A to AA5H inclusive and in Schedule A and Schedule B” for “in special conditions AA5A to AA5F inclusive and in Schedule A” in each place where it occurs.

2 Paragraph 1 of special condition AA5 shall be amended by inserting the following definition after the definition of “remote transmission asset rentals”:

“TIRG relevant year,” means, in relation to each transmission investment project *i* specified in schedule B, the relevant year in which a revenue allowance falls to be made under special condition AA5G with respect to that transmission investment project *i*:  $t=p$  means the relevant year commencing 1 April 2005;  $t=p$  to  $t=-1$  means the preconstruction period (where  $p \leq -1$ );  $t=0$  means the relevant year in which construction of that transmission investment project *i* commences;  $t=0$  to  $t=n$  means the construction period;  $t=n$  means the relevant year in which that transmission investment project *i* is commissioned;  $t=n+1$  means the relevant year in year 1 post commissioning period for that transmission investment project *i* and similar expressions shall be construed accordingly.

3 The definition of “transmission network revenue restriction” in paragraph 1 of special condition AA5 shall be amended by substituting “AA5H inclusive and Schedule B” for “AA5F inclusive”.

4 The formula in paragraph 1 of Part 1 of special condition AA5A shall be amended by inserting “+TIRG,” at the end of the formula in the following manner:

$$M_t = \left[ 1 + \frac{RPI_t - X_g}{100} \right] P_{t-1} - D_t - K_t + G_t + U_t + CCC_t + LPC_t + LPR_t + RI_t + IES_t + TSP_t + TSH_t$$

+ TIRG<sub>t</sub>,"

- 5 Paragraph 1 of Part 1 of special condition AA5A shall be amended by inserting the following at the end of that paragraph immediately after the definition of "TSH<sub>t</sub>":

"TIRG<sub>t</sub>," means, for each TIRG relevant year t, the aggregate of the annual revenue allowances for each transmission investment project specified in schedule B and shall be calculated in accordance with special condition AA5G.

- 6 After special condition AA5F Adjustment to Transmission Network Revenue Restriction due to Transmission Network Reliability Incentive Scheme there shall be inserted the following new conditions:

**Special Condition AA5G: Adjustment to Transmission Network Revenue Restriction due to Transmission Investment for Renewable Generation**

- 1 For each TIRG relevant year t, TIRG<sub>t</sub> shall be calculated in accordance with the following formula:

$$TIRG_t = \sum_{\text{all } i} TIRG_t^i$$

where TIRG<sub>t</sub><sup>i</sup> means the annual revenue allowance in TIRG relevant year t for each transmission investment project i specified in schedule B.

- 2 For each TIRG relevant year t, the annual revenue allowance for each transmission investment project i specified in schedule B shall be calculated in accordance with the following formula:

$$TIRG_t^i = IPTIRG_t^i + TIRGIncAd_t^i + FTIRG_t^i + ETIRG_t^i + ATIRG_t^i$$

Save that:

Unless either:

- (a) planning consent is granted for reinforcement of the national transmission system in Scotland between Beaully and Denny; or
- (b) the Authority is satisfied that sufficient additional requests for connection to the national transmission system have been made in western Scotland to justify a need for substantial work on the western circuit of the England-Scotland interconnector which is independent of the proposed reinforcement of the national transmission system in Scotland between Beaully and Denny,

for each TIRG relevant year  $t$ , the annual revenue allowance for the England-Scotland Interconnection transmission investment project specified in Schedule B shall be calculated in accordance with the following formula:

$$\text{TIRG}_t^i = \text{IPTIRG}_t^i + \text{TIRGIncAd}_t^i$$

where:

$\text{IPTIRG}_t^i$  means the annual preconstruction and contingency revenue allowance for the transmission investment project  $i$  for the TIRG relevant years  $t=p$  to  $t=-1$  (where  $p \leq -1$ ) and shall be calculated in accordance with paragraph 3.

$\text{TIRGIncAd}_t^i$  means the sum of one or more preconstruction and contingency revenue allowance adjustment for a TIRG income adjusting event and each revenue allowance adjustment shall be determined by the Authority in accordance with paragraph 4.

$\text{FTIRG}_t^i$  means the annual construction revenue allowance for the transmission investment project  $i$  for the TIRG relevant

years t=0 to t=n and shall be calculated in accordance with paragraph 5.

ETIRG<sub>t</sub><sup>i</sup> means the annual incentive revenue allowance for the transmission investment project i for the TIRG relevant years t=n+1 to t=n+5 and shall be calculated in accordance with paragraph 7.

ATIRG<sub>t</sub><sup>i</sup> means the actual annual revenue allowance for the transmission investment project i for the TIRG relevant years t=n+6 to t=n+40 and shall be determined by the Authority in accordance with paragraph 9.

3 For the purposes of paragraph 2, the term IPTIRG<sub>t</sub><sup>i</sup> shall be calculated in accordance with the following formula:

$$\text{IPTIRG}_t^i = \text{CFTIRG}_t^i * \text{ARPI}_t$$

where:

CFTIRG<sub>t</sub><sup>i</sup> means the forecast preconstruction and contingency costs for the transmission investment project i for TIRG relevant years t=p to t=-1 (where p≤-1) and shall have the value specified in schedule B for each TIRG relevant year t, and where no value is specified in Schedule B for a TIRG relevant year t shall have the value of zero.

ARPI<sub>t</sub> 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:

$$\text{ARPI}_t = \left[ 1 + \frac{\text{RPI}_t}{100} \right] \times \text{ARPI}_{t-1}$$

where:

RPI<sub>t</sub> 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 May to October (both inclusive) in relevant year t-1 and that is published or determined with respect to the same months in relevant year t-2.

- 4 (a) For the purposes of this paragraph, a TIRG income adjusting event means an event or circumstance occurring in the pre construction period that the Authority is satisfied causes 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/or expenses:
- (i) have resulted in, or are expected to result in, a material increase or decrease to the forecast preconstruction and contingency costs for the transmission investment project i for TIRG relevant years  $t=p$  to  $t=-1$  (where  $p \leq -1$ ) (CFTIRG<sub>t</sub>);
  - (ii) have been, or are expected to be, efficiently incurred or saved; and
  - (iii) can not otherwise be recovered under the TIRG revenue allowance provided under this Special Condition AA5G.
- (b) Where the licensee considers, and can provide supporting evidence that, a TIRG income adjusting event has occurred in respect of 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 no longer than 3 months after the end of the TIRG relevant year t in which that event has occurred (or such later date as the Authority notifies to the licensee for the purposes of this subparagraph).
- (c) A notice provided under subparagraph (b) shall give particulars of:

- (i) the  $TIRG_t$  income adjusting event to which the notice relates and the reason(s) why the licensee considers that event to be a  $TIRG_t$  income adjusting event;
  - (ii) the costs and/or expenses that the licensee can demonstrate have been, or 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 forecast preconstruction and contingency costs for the transmission investment project  $i$  for TIRG relevant years  $t=p$  to  $t=-1$  (where  $p \leq -1$ ) ( $CFTIRG_t$ ) that the licensee can demonstrate have been, or are expected to be, incurred or saved by 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 TIRG revenue allowance provided by this Special Condition AA5G;
  - (iv) the amount of any  $TIRGIncAd_t^i$  income adjustment allowance proposed as a consequence of that event and how this  $TIRGIncAd_t^i$  income adjustment allowance has been calculated; and
  - (v) any other analysis or information which the licensee considers to be relevant to the Authority's assessment of that event.
- (d) Where the Authority receives a notice under subparagraph (b), the Authority shall determine (after consultation with the licensee and such other persons it considers necessary):
- (i) whether a TIRG income adjusting event has occurred in respect of the transmission investment project  $i$ ; and
  - (ii) a  $TIRGIncAd_t^i$  income adjustment allowance in respect of the transmission investment project  $i$ .
- (e) Where the Authority determines under subparagraph (d) that a TIRG income adjusting event has occurred in respect of the transmission investment project  $i$ , the  $TIRGIncAd_t^i$  income adjustment allowance in respect of the transmission investment

project i determined by the Authority under subparagraph (d) 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 TIRG income adjusting event had not occurred, and in all other cases the  $TIRGIncAd_i^i$  income adjustment allowance in respect of the transmission investment project i determined by the Authority under subparagraph (d) shall be zero.

- (f) Where the Authority makes a determination under this paragraph, the Authority shall publish a notice stating the  $TIRGIncAd_i^i$  income adjustment allowance 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.
- (h) For the purpose of paragraph 2, the term  $TIRGIncAd_i^i$  shall be the  $TIRGIncAd_i^i$  income adjustment allowance for the transmission investment project i determined by the Authority under subparagraph (d), and where the Authority has not made a determination under subparagraph (d) shall be zero.
- (i) Where the licensee notifies the Authority of a TIRG income adjusting event under subparagraph (b), 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.

- 5 For the purposes of paragraph 2, the term  $FTIRG_i^i$  shall be calculated in accordance with the following formula:

$$FTIRG_i^i = CCTIRG \times (FTIRGC_i^i + AFFTIRG_i^i) \times ARPI_i$$

where:

CCTIRG means the pre-tax cost of capital in real terms for the transmission investment project i for each TIRG relevant

year t and for the purposes of this special condition shall take the value of eight point eight per cent (8.8%).

$FTIRGC_t^i$  means the average asset value for the transmission investment project i for each of the TIRG relevant years  $t=0$  to  $t=n$  and shall be determined as follows:

- (a) where the licensee has not been granted planning consent to build the transmission investment project i,  $FTIRGC_t^i$  shall be zero; and
- (b) where the licensee has been granted planning consent to build the transmission investment project i,  $FTIRGC_t^i$  shall have the value specified in schedule B for each TIRG relevant year t, and where no value is specified in Schedule B for a TIRG relevant year t shall have the value of zero.

$AFFTIRG_t^i$  means one or more adjustment to the average asset value for the transmission investment project i for the TIRG relevant years  $t=0$  to  $t=n$  ( $FTIRGC_t^i$ ) as a result of a TIRG asset value adjusting event and each adjustment shall be determined by the Authority in accordance with paragraph 6.

$ARPI_t$  shall have the meaning given in paragraph 3.

- 6. (a) For the purpose of this paragraph, a TIRG 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 TIRG relevant years  $t=0$  to  $t=n$  ( $FTIRGC_t^i$ );
  - (ii) are expected to be efficiently incurred or saved; and

- (iii) can not otherwise be recovered under the TIRG revenue allowance provided by this Special Condition AA5G.
- (b) For the purposes of subparagraph (a) and Special Condition AA5H
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- (i) “relevant additional preconstruction works” means preconstruction works expected to be carried out by the licensee during the TIRG relevant years  $t=0$  to  $t=n$  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:
    - (a) 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); or
    - (b) is necessary to comply with technical, engineering or planning constraints in respect of the transmission investment project  $i$  that are identified by the licensee during preconstruction work.
- (c) Where the licensee considers, and can provide supporting evidence that, a TIRG 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 prior to TIRG 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 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 construction works (as appropriate) and shall give particulars of:

- (i) the TIRG asset value adjusting event to which the notice relates and the reason(s) why the licensee considers that event to be a TIRG 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 TIRG relevant years  $t=0$  to  $t=n$  ( $FTIRGC_t$ ) 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 TIRG revenue allowance provided by this Special Condition AA5G;
  - (v) the amount of any  $AFFTIRG_t^i$  adjustment proposed as a consequence of that event and how this  $AFFTIRG_t^i$  adjustment has been calculated; and
  - (vi) 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 a TIRG asset value adjusting event has occurred in respect of the transmission investment project *i*;
  - (ii) where the Authority determines that a TIRG 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 TIRG asset value adjusting event; and

- (iii) a  $AFFTIRG_i^i$  adjustment in respect of the transmission investment project i.
- (f) Where the Authority determines under subparagraph (e) that a TIRG 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 TIRG asset value adjusting event, the  $AFFTIRG_i^i$  adjustment 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 TIRG asset value adjusting event had not occurred, and in all other cases the  $AFFTIRG_i^i$  adjustment in respect of the transmission investment project i determined by the Authority under subparagraph (e) shall be zero.
- (g) Where the Authority makes a determination under this paragraph, the Authority shall publish a notice stating the  $AFFTIRG_i^i$  adjustment 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 5, the term  $AFFTIRG_i^i$  shall be the  $AFFTIRG_i^i$  adjustment 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.
- (j) Where the licensee notifies the Authority of a TIRG income 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.

- 7 For the purpose of paragraph 2, the term  $ETIRG_t^i$  shall be calculated in accordance with the following formula:

$$ETIRG_t^i = (CCTIRG \times (ETIRGC_t^i \times SAFRTIRG^i) \times ARPI_t) + (Dep_t^i \times SAFRTIRG^i \times ARPI_t)$$

where:

CCTIRG shall have the meaning given in paragraph 5.

$ETIRGC_t^i$  means the average asset value for the transmission investment project  $i$  for each of the TIRG relevant years  $t=n+1$  to  $t=n+5$  and shall have the value specified in schedule B for each TIRG relevant year  $t$ , and where no value is specified in Schedule B for a TIRG relevant year  $t$  shall have the value of zero.

$SAFRTIRG^i$  means an adjustment factor to the average asset value for the transmission investment project  $i$  for each of the TIRG relevant years  $t=n+1$  to  $t=n+5$  ( $ETIRGC$ ) and shall have the value of 1 unless otherwise determined by the Authority by TIRG relevant year  $t=n+1$  in accordance with the following formula:

$$SAFRTIRG^i = [SAFTIRG^i / ETIRGORAV^i]$$

where:

$SAFTIRG^i$  means the opening asset value for the transmission investment project  $i$  determined by the Authority by TIRG relevant year  $t=n+1$  in accordance with paragraph 8.

$ETIRGORAV^i$  means the opening regulated asset value for the transmission investment project  $i$  at TIRG relevant year  $t=n+1$  and shall have

the value specified in schedule B.

ARPI<sub>t</sub> shall have the meaning given in paragraph 3.

Dep<sub>t</sub><sup>i</sup> means the annual depreciation allowance for TIRG relevant year t and shall have the value specified in schedule B.

- 8 (a) The Authority shall determine (in consultation with the licensee and such other persons it considers necessary) the value of the term SAFTIRG<sup>i</sup> with respect to the transmission investment project i by TIRG relevant year  $t = n + 1$  where the Authority has received a post construction expenditure report and a post construction technical report in respect of the transmission investment project i in accordance with special condition AA5H.
- (b) Where the Authority makes a determination under this paragraph, the Authority shall have regard to the following:
- (i) whether the final aggregate transmission investment expenditure set out in the post construction expenditure report has been efficiently incurred;
  - (ii) the extent to which the licensee has complied with the output measures specified in schedule B for the transmission investment project i as set out in the post construction technical report;
  - (iii) whether an adjustment has been made to the average asset value for the transmission investment project i for the TIRG relevant years  $t=0$  to  $t=n$  under paragraph 6 (AFFTIRG adjustment); and
  - (iv) any other information the Authority considers to be relevant to the determination.
- (c) Where the Authority makes a determination under this paragraph, the Authority shall publish a notice stating the SAFTIRG<sup>i</sup> opening asset value for the transmission investment project i and the reasons for the determination.

- (d) The Authority may revoke a determination made under this paragraph with the consent of the licensee.
9. For the purposes of paragraph 2 the term  $ATIRG_t^i$  shall be determined by the Authority (in consultation with the licensee and such other persons the Authority considers necessary) by TIRG relevant year  $t = n + 5$  in accordance with the principle that efficiently incurred costs shall be recoverable by the licensee.

**Special Condition AA5H: Information to be provided to the Authority in connection with Transmission Investment for Renewable Generation**

- 1 For each transmission investment project  $i$  specified in schedule B, the licensee shall provide the Authority with the following:
- (a) during or prior to TIRG relevant year  $t=0$ , a preconstruction technical report, accompanied by a statement from independent technical advisors, setting out:
    - (i) the  $TIRG_{t=0}$  output measures assessed against the forecast output measures in Schedule B for the transmission investment project  $i$ ; and
    - (ii) the  $TIRG_{t=n}$  forecast output measures assessed against the forecast output measures in Schedule B for the transmission investment project  $i$ ;
  - (b) not later than three months after the end of each of the TIRG relevant years  $t=p$  to  $t=0$  (or such later date as the Authority notifies to the licensee for the purposes of this subparagraph), a preconstruction expenditure report, accompanied by an auditor's statement, setting out an itemised report of the preconstruction expenditure incurred for the transmission investment project  $i$  during that TIRG relevant year  $t$ ;
  - (c) not later than three months after the end of each of the TIRG relevant years  $t=1$  to  $t=n$  (or such later date as the Authority

notifies to the licensee for the purposes of this subparagraph), a construction expenditure report accompanied by an auditor's statement, setting out an itemised report of the construction expenditure incurred for the transmission investment project *i* during that TIRG relevant year *t*;

(d) not later than three months after the end of TIRG 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 expenditure report, accompanied by an independent auditor's statement, setting out the final aggregate transmission investment expenditure for the transmission investment project *i*, assessed against the average asset value for the transmission investment project *i* for TIRG relevant years  $t=0$  to  $t=n$  (FTIRG<sub>*t*</sub>); and

(ii) 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 schedule B.

2 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 special condition AA5G.

3 The output measures specified in Schedule B may be amended in accordance with this paragraph.

(a) 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 Special Condition AA5G(6)(b)(ii)) which the Authority is satisfied is expected to cause a material change in the output measures specified in schedule B for the transmission investment project *i*.

- (b) 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 prior to TIRG relevant year  $t=0$  (or at such later date as the Authority notifies to the licensee for the purposes of this subparagraph).
- (c) A notice provided under subparagraph (b) 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.
- (d) 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 a 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.
- (e) 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.

- (f) The Authority may revoke a determination made under this paragraph with the consent of the licensee.

7 After SCHEDULE A: SUPPLEMENTARY PROVISIONS OF THE CHARGE RESTRICTION CONDITIONS there shall be inserted the following new schedule:

**SCHEDULE B: SUPPLEMENTARY PROVISIONS TO SPECIAL CONDITION  
AA5G AND SPECIAL CONDITION AA5H**

**England – Scotland Interconnection**

**East coast and west coast reinforcement combined costs**

Pre construction, contingency and construction costs

<b>project costs (£ 000) 2004 prices</b>	<b>t=p</b>	<b>t=0</b>	<b>t=1</b>	<b>t=2</b>	<b>t=3</b>	<b>t=n</b>
Forecast pre-construction and contingency costs (CFTIRG <sub>t</sub> )	1,976	n/a	n/a	n/a	n/a	n/a
Average asset value during construction period (FTIRGC <sub>t</sub> )	n/a	6,124	25,155	53,167	80,494	98,848

Post construction revenue

<b>Project costs (£ 000) 2004 prices</b>	<b>t=n+1</b>	<b>t=n+2</b>	<b>t=n+3</b>	<b>t=n+4</b>	<b>t=n+5</b>
Opening RAV (ETIRGORAV)	104,980				
Dep <sub>t</sub> <sup>i</sup>	2,625	2,625	2,625	2,625	2,625
Average asset value during efficiency period (ETIRGC <sub>t</sub> )	103,668	101,043	98,419	95,794	93,170

**Output measures**

## East coast interconnection

All figures are equivalent reactances (X) of the two circuits in each branch connected in parallel in % on 100MVA. The three branches are:

- A tee point to Scottish border (400kV circuit)
- B tee point to Stella West 400kV (400kV circuit)
- C tee point to Blyth 275kV (400kV circuit, and two 400/275kV transformers)

The 'combined figure' is the reactance between the Scottish border and the 275kV network in the NE of England, calculated by:

line A in series with (B' paralleled with C), where:

B' is line B in series with the existing 4 400/275kV transformers at Stella West.

Scope of work	Impedance as at 31 March 2005	Forecast impedance prior to construction start date	Forecast impedance post construction
Reduction in line impedance			
<b>Line A</b>	0.883	0.883	0.721
<b>Line B</b>	0.070	0.070	0.059
<b>Line C</b>	N/A	N/A	1.128
<b>Combined impedance</b>	1.349	1.349	1.045

Scope of work	Circuit ratings as at 31 March 2005		Forecast circuit ratings prior to construction start date		Forecast circuit ratings post construction	
	Winter (MVA)	Summer (MVA)	Winter (MVA)	Summer (MVA)	Winter (MVA)	Summer (MVA)
<b>Line A</b>	1390	1110	1390	1110	3070	2420
<b>Line B</b>	1390	1110	1390	1110	3070	2420
<b>Line C</b>	955	760	955	760	1390	1110

All circuit ratings are post-fault continuous capabilities @ 50 degrees centigrade operation.

The Line C rating in advance of construction reflects operation at 275kV whereas the rating after construction reflects 400kV operation.

Circuit thermal ratings may differ from the conductor ratings due to limitations in switchgear, down droppers or protection.

#### West coast interconnection

Project scope	Capability as at 31 March 2005 kV (MVA)	Forecast capability one year prior to construction kV (MVA)	Forecast capability post construction kV (MVA)
Line upgrade from Scotland-England border to Harker substation	275 (1130)	275 (1130)	400 (2010)

#### England-Scotland interconnection– reactive compensation

Install a 150Mvar mechanically switched capacitor bank at a location to be chosen by the licensee so as to maximise its effectiveness given the particular reinforcements to be undertaken in Scotland.