

To: The Company Secretary  
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The Company Secretary  
SP Transmission Ltd  
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The Company Secretary  
Scottish Hydro Electric Transmission Ltd  
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## **SECTION 11 AND SECTION 49A(1)(b) OF THE ELECTRICITY ACT 1989**

### **MODIFICATION OF THE ELECTRICITY TRANSMISSION LICENCE OF NATIONAL GRID ELECTRICITY TRANSMISSION PLC PURSUANT TO SECTION 11 OF THE ELECTRICITY ACT 1989;**

### **MODIFICATION OF THE ELECTRICITY TRANSMISSION LICENCE OF SP TRANSMISSION LIMITED PURSUANT TO SECTION 11 OF THE ELECTRICITY ACT 1989;**

### **MODIFICATION OF THE ELECTRICITY TRANSMISSION LICENCE OF SCOTTISH HYDRO ELECTRIC TRANSMISSION LIMITED PURSUANT TO SECTION 11 OF THE ELECTRICITY ACT 1989, AND**

## **NOTICE OF THE REASONS FOR THE DECISION TO MODIFY THE LICENCE**

Whereas:

1. National Grid Electricity Transmission plc ("NGET"), SP Transmission Limited ("SPTL") and Scottish Hydro Electric Transmission Limited ("SHETL") (collectively referred to as "the Licensees") each hold an electricity transmission licence ("the Licences") granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 ("the Act").
2. On 26 February 2010, the Gas and Electricity Markets Authority ("the Authority") gave notice ("the Notice") pursuant to section 11(2) of the Act that it proposed to:

- modify Special Condition D2: "Restriction on Transmission Network Revenue" of NGET's electricity transmission licence and to insert Special Condition D11: "Adjustment to the Transmission Network Revenue Restriction due to Transmission Asset Owner Incentives", in the manner set out in Schedule 1 to this Document;
  - modify Special Condition J2: "Restriction of transmission charges: revenue from transmission owner services" of SPTL's electricity transmission licence and to insert Special Condition J12: "Adjustment to the Transmission Network Revenue Restriction due to Transmission Asset Owner Incentives", in the manner set out in Schedule 2 to this Document; and
  - modify Special Condition J2: "Restriction of transmission charges: revenue from transmission owner services" of SHETL's electricity transmission licence and to insert Special Condition J12: "Adjustment to the Transmission Network Revenue Restriction due to Transmission Asset Owner Incentives", in the manner set out in Schedule 3 to this Document.
3. The reasons for modifying the Licences in the manner prescribed in the Schedules to this Document are set out in the Notice. In summary, the purpose and effect of the Licence modification is to introduce provisions which will allow recovery of certain pre-construction and construction costs associated with transmission reinforcement projects for the period until 31 March 2012.
  4. The Authority published the Notice in the manner it considered appropriate and required any objections or representations to the modifications to be made in writing on or before 26 March 2010.
  5. Prior to the close of the consultation period in respect of the Notice, the Authority received no responses in addition to the letters from the Licensees consenting formally to the proposed modifications specified in the Notice.
  6. The Authority gave notice to the Secretary of State of its intention to make the modifications and did not receive from him a direction not to make the modifications.
  7. On 22 March 2010, National Grid Electricity Transmission Plc gave its consent to the proposed modification of Special Conditions D2 and D11 of its Licence in the manner set out in the Schedule 1 to this Document.
  8. On 25 March 2010, SP Transmission Limited gave its consent to the proposed modification of Special Conditions J2 and J12 of its Licence in the manner set out in the Schedule 2 to this Document.
  9. On 3 March 2010, Scottish Hydro Electric Transmission Limited gave its consent to the proposed modification of Special Conditions J2 and J12 of its Licence in the manner set out in the Schedule 3 to this Document.
  10. Typographical errors have been corrected in the Schedules to this Document. These relate to: (a) the introductory text for the section relating to the Humber transmission investment project in Annex A to Special Condition D11 of NGET's licence; (b) the numbering of sub-paragraphs to paragraph 4 of Annex A to Special Condition J12 of SPTL's licence; and (c) the presentation of the formulae for  $K_t$  in the

existing legal text of Special Condition D2 in NGET's licence and Special Condition J2 of SPTL's and SHETL's licences.

NOW in accordance with the powers contained in section 11 (1) of the Act, the Authority HEREBY MODIFIES the special conditions of the Licences in the manner specified in the schedules to this Document WITH EFFECT on and from 1 April 2010.

This Document also constitutes notice of the reasons for the decision to modify the Licences under section 49A(1)(b) of the Act.

**The Official Seal of the Gas and Electricity Markets Authority here affixed is authenticated by the signature of**

**Hannah Nixon**  
Partner, Transmission

Authorised on behalf of the Authority

31 March 2010

## SCHEDULE 1

### MODIFICATION OF THE ELECTRICITY TRANSMISSION LICENCE OF NATIONAL GRID ELECTRICITY TRANSMISSION PLC PURSUANT TO SECTION 11(1) OF THE ELECTRICITY ACT 1989

#### 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 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; and

X shall take the value two;

**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 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<sub>t</sub>** 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<sub>t</sub>** 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<sub>t</sub>** 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<sub>t</sub> shall take the value zero;

**IE<sub>t</sub>** 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 <sub>t</sub> 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<sub>t</sub> 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<sub>t</sub> 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 1<sup>st</sup> 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 21<sup>st</sup> 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:

$$TOInc_t = \sum_t^{all\ i} ConTOInc_t^i + CxIncTO_t - IntTORev_t$$

where:

$ConTOInc_t^i$  means the annual revenue allowance associated with pre-construction and construction activities 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;

$CxIncTO_t$  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 4, and

$IntTORev_t$  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 1 of special condition D9 (Capital Expenditure Incentive and Safety Net), and shall have the value of zero unless directed otherwise by the Authority in writing.

**Calculation of the annual revenue allowance,  $ConTOInc_t^i$**

2. For the purposes of paragraph 1, the term  $ConTOInc_t^i$  shall be calculated in accordance with the following formula:

$$ConTOInc_t^i = CCTOInc \times (AAVConTOInc_t^i + AVAECOnTOInc_t^i) \times ARPI_t \\ + (ConTOIncDeprn_t^i + AVAECOnTOIncDeprn_t^i) \times ARPI_t$$

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 2009/10 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 2009/10 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 3;

$ARPI_t$  means the price index adjustment, which in the relevant year

commencing 1 April 2004 equals 1, and in each subsequent year shall be 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 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.

$ConTOIncDepn_t^i$  means the depreciation value for the transmission investment project i for each of the relevant years 2009/10 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 2009/10 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 3.

***Asset value adjusting event***

3. (a) For the purpose of this paragraph, an asset value adjusting event means relevant additional pre-construction 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 2009/10 to 2011/12 (AAVConTOInc<sup>i</sup>);
  - (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 this transmission licence.
- (b) For the purposes of subparagraph (a) –
- (i) “relevant additional pre-construction works” means an amendment to the scope of the pre-construction works expected to be carried out by the licensee during the relevant years 2009/10 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, 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 2009/10 to 2011/12 ( $AAVConTOInc_i^j$ ) 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 or any other provision within this licence;
  - (v) the amount of any  $AVAConTOInc_i^j$  adjustment proposed as a consequence of that event and how this  $AVAConTOInc_i^j$  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 2009/10 to 2011/12 ( $ConTOIncDepn_i^j$ ) 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<sub>t</sub><sup>i</sup> adjustment proposed as a consequence of that event and how this AVAECOnTOIncDepn<sub>t</sub><sup>i</sup> adjustment has been calculated;
  - (viii) relevant internal papers where revised expenditure has been requested and relevant supporting information;
  - (ix) a statement from independent technical advisers setting out that in their opinion the additional pre-construction works/amended scope of construction works (as appropriate) fairly reflect the asset value adjusting event and a statement from independent auditors setting out that in their opinion the notice fairly presents the costs and expenses that have been incurred or saved by the additional pre-construction works/amended scope of the construction works (as appropriate);
  - (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 in accordance with subparagraph (g):
- (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<sub>t</sub><sup>i</sup> 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 that an asset value adjusting event has occurred, following consultation with relevant parties, the Authority shall make necessary amendments to the provisions contained in Annex A to include values for  $AVAECOnTOInc_t^i$  and  $AVAECOnTOIncDepn_t^i$  for the relevant transmission investment project  $i$ . The Authority will also determine necessary amendments to the term  $TOIncBCx_n$  to reflect the amendments made to the provisions contained in Annex A;
- (h) The Authority may revoke a determination made under this paragraph with the consent of the licensee;
- (i) For the purpose of paragraph 2, 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.

***Calculation of the annual revenue adjustment term in respect of the application of the capital expenditure incentive regime,  $CxIncTO_t$***

4. For the purpose of paragraph 1 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 2009 and accordingly the third 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 2009 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	2009	2010	2011
TOCIR <sub>n</sub>	0.2312	0.1357	0.0313

PVF<sub>n</sub> 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	2009	2010	2011
PVF <sub>n</sub>	1.19946	1.12891	1.06250

TOIncDif<sub>n</sub> 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:

TOIncAC<sub>x<sub>n</sub></sub> 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 5 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 2 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) 2004/05 prices	2009/10	2010/11	2011/12
$TOIncBCx_n$	1.754	64.235	102.501

$PIT_t$  shall take the same meaning as given in paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue).

- For the purposes of paragraph 4,  $TOIncACx_n$  shall be calculated in accordance with the following formula:

$$TOIncACx_n = TOIncCx_n - TOIncDCx_n$$

Where:

TOIncCx<sub>n</sub> 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) . For the avoidance of doubt, the capital expenditure associated with TOIncCx<sub>n</sub> shall be excluded from the term CX<sub>n</sub> in paragraph 3 of special condition D9 (Capital Expenditure Incentive and Safety Net), and

TOIncDCx<sub>n</sub> means the amount of capital expenditure incurred by the licensee in respect of the relevant year n associated with the relevant transmission investment projects specified in Annex A, in respect of which the Authority has issued a direction on or before 31 March 2012 in respect of relevant years from 1 April 2009 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 6 and 7 of this condition. It shall take the value of zero unless the Authority directs otherwise.

6. For the purposes of paragraph 5, 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.
  
7. The Authority shall have regard to any representations made by the licensee in response to the notice referred to in paragraph 6 before making any direction in respect of paragraph 5.

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

8. For each transmission investment project *i* specified in Annex A to this condition, the licensee shall provide the Authority with the following:
- (a) not later than three months after the end of each relevant year *t* in which pre-construction works take place (or such later date as the Authority may notify to the licensee):
    - (i) a pre-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 key project milestones specified in Annex A to this condition for the relevant transmission investment project *i*, and
    - (ii) a pre-construction expenditure report, setting out an itemised report of the pre-construction expenditure incurred for the transmission investment project *i* in respect of the preceding relevant year.
  - (b) Not later than three months after the end of each relevant year *t* in which construction works commence (or such later date as the Authority may notify to the licensee) an auditor's statement in respect of the expenditure incurred by the licensee and notified to the Authority in accordance with paragraph 8(a)(ii) of this condition in respect of each relevant transmission investment project in the pre-construction period.
  - (c) 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 may notify to the licensee):
    - (i) 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 for the relevant transmission investment project i, and

- (ii) a construction expenditure report setting out an itemised report of the construction expenditure incurred for the transmission investment project i in respect of the preceding relevant year.
- (d) Not later than three months after the end of each relevant year t in which construction works are completed (or such later date as the Authority may notify to the licensee):
- (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, and
  - (ii) an auditor's statement in respect of the expenditure incurred by the licensee and notified to the Authority in accordance with paragraph 8(c)(ii) of this condition in respect of each relevant transmission investment project in the construction period.
9. 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.
10. (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 (3)(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 prior to the commencement of relevant construction works (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 in accordance with subparagraph (f):
  - (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 that an output measures adjusting

event has occurred, following consultation with relevant parties, the Authority shall make necessary amendments to the output measures contained in Annex A for the relevant transmission investment project i.

- (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**

1. The Authority may direct changes to this Annex A to amend the details of each transmission investment project i specified in this Annex A (referred to in this Annex A as “existing projects”) and/or add details of new transmission investment projects through the provisions of this Special Condition (referred to in this Annex A as “new projects”). The Authority will consult with interested parties prior to issuing a direction.
2. The licensee may request that the Authority direct changes to the pre-construction and construction costs, key project milestones and forecast output measures described in this Annex A through the provisions set out in paragraph 1 of this Annex A by giving notice to the Authority in such form as the Authority may from time to time require. The notice shall include the information set out in paragraphs 3 and/or 4 of this Annex A (as appropriate) and such other information as the Authority may require.
3. Where the notice in paragraph 2 relates to an existing project set out in this Annex A the licensee shall give particulars of:
  - (i) the nature of the requested changes to Annex A;
  - (ii) the reasons for the request, with relevant supporting evidence to include: project development plans, planning consent details and status, detailed design works, forecast cost year-by-year profiles, forecast cost breakdowns and construction programme;
  - (iii) an up-to-date forecast of pre-construction and construction costs for the existing project;
  - (iv) progress made towards achieving key project milestones for the existing project as specified in Annex A, and, where appropriate, an updated description of key project milestones in the form set out in this Annex A

- (v) progress made towards achieving forecast output measures for the existing project as already specified in Annex A, and, where appropriate, an updated description of forecast output measures in the form set out in this Annex A
  - (vi) any other analysis or information which the licensee considers may be relevant to the Authority's consideration of the request.
4. Where the notice in paragraph 2 of this Annex A relates to a new project the licensee shall give particulars of:
- (i) a description of the new project, including, where applicable, the associated needs case
  - (ii) the nature of the requested changes to Annex A
  - (iii) the reasons for the request, with relevant supporting evidence to include: project development plans, planning consent details and status, detailed design works, forecast cost year-by-year profiles, forecast cost breakdowns and construction programme.
  - (iv) an up-to-date forecast of pre-construction and construction costs for the new project;
  - (v) where appropriate, a description of key project milestones for the new project in the form set out in this Annex A
  - (vi) where appropriate, a description of forecast output measures for the new project in the form set out in this Annex A
  - (vii) any other analysis or information which the licensee considers may be relevant to the Authority's consideration of the request.

## Anglo Scottish Incremental

Funding allowed to the licensee by the Authority through provisions of Special Condition D11:

### 1. Pre-construction and Construction costs

<b>project costs</b> <b>(£ million)</b> <b>2004/05 prices</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
Pre-construction cost allowance	0.000	4.385	3.946
Construction cost allowance	0.000	0.000	0.000
Average asset value (AAVConTOInc <sub>t</sub> <sup>i</sup> )	0.000	2.192	6.249
Depreciation (ConTOIncDepn <sub>t</sub> <sup>i</sup> )	0.000	0.000	0.219

### 2. Key project milestones

<b>Description of project milestones</b>	<b>Delivered by 1 April 2010</b>	<b>Delivered by 1 April 2011</b>	<b>Delivered by 1 April 2012</b>
Linked to pre-construction allowance		<p><b>Series compensation</b> – provide evidence to show that:</p> <p>Pre-construction initial design works and site studies have been completed during 2010/11: provide evidence that single line diagrams, physical</p>	<p><b>Series compensation</b> – provide evidence to show that:</p> <p>The planning permission and purchase of land, easements and wayleaves are progressing in line with completion of planning process</p>

		<p>layouts and site proposals have been completed.</p> <p>Complete optioneering report to determine optimum mix between Series/Shunt compensation and determine optimum location for proposed compensation.</p> <p>Complete specialist studies in support of installation of series compensation (i.e. SSR studies)</p> <p><b>Reconductoring of Harker – Hutton-Quernmore Tee -</b> provide evidence to show that:</p> <p>Pre-construction works have commenced: Provide evidence to show that design works are progressing and that that a detailed program for obtaining planning consents is available.</p>	<p>during 2012/13.</p> <p><b>Shunt Compensation -</b> provide evidence to show that:</p> <p>Pre-construction initial design works and site have been completed during 2010/11: provide evidence that single line diagrams, physical layouts and site proposals have been completed.</p> <p><b>Reconductoring of Harker – Hutton-Quernmore Tee -</b> provide evidence to show that:</p> <p>All pre-construction works have completed during 2011/12: Provide evidence of project design, route ID, site studies and environmental assessments. Confirm that planning consents are achieved.</p>
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Linked to construction allowance			
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## Central Wales

Funding allowed to the licensee by the Authority through provisions of Special Condition D11:

### 1. Pre-construction and Construction costs

<b>project costs</b> <b>(£ million)</b> <b>2004/05 prices</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
Pre-construction cost allowance	0.000	1.052	1.579
Construction cost allowance	0.000	0.000	0.000
Average asset value (AAVConTOInc <sub>t</sub> <sup>i</sup> )	0.000	0.526	1.815
Depreciation (ConTOIncDepn <sub>t</sub> <sup>i</sup> )	0.000	0.000	0.053

### 2. Key project milestones

<b>Description of project milestones</b>	<b>Delivered by 1 April 2010</b>	<b>Delivered by 1 April 2011</b>	<b>Delivered by 1 April 2012</b>
Linked to pre-construction allowance		<p><b>For the Central Wales – Ironbridge 400kV circuit and the Central Wales substation provide:</b></p> <p>A detailed programme for both elements of works by 1 April 2011.</p> <p>Evidence that</p>	<p><b>Central Wales substation</b> – provide evidence to show that:</p> <p>Project design is being progressed and that planning applications have been submitted to LPAs in line with</p>

		<p>planning consultations with relevant parties have commenced.</p> <p>Provide evidence that route surveys are underway and that EIA surveys are progressing towards completion.</p> <p><b>Central Wales - Ironbridge 400kV Circuit only</b> – provide a complete optioneering report.</p>	<p>programme.</p> <p><b>Central Wales to Ironbridge 400kV circuit</b> - provide evidence to show that:</p> <p>Evidence that the initial planning consultations with relevant parties have been completed.</p> <p>Planning application being prepared for submission to IPC.</p> <p>Project design is being progressed in line with completion of pre-construction works in 2013.</p>
Linked to construction allowance			

## East Anglia

Funding allowed to the licensee by the Authority through provisions of Special Condition D11:

### 1. Pre-construction and Construction costs

<b>project costs</b> <b>(£ million)</b> <b>2004/05 prices</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
Pre-construction cost allowance	0.000	5.130	2.806
Construction cost allowance	1.754	30.738	64.283
Average asset value (AAVConTOInc <sub>t</sub> <sup>i</sup> )	0.877	19.644	70.139
Depreciation (ConTOIncDepn <sub>t</sub> <sup>i</sup> )	0.000	0.088	1.881

### 2. Key project milestones

<b>Description of project milestones</b>	<b>Delivered by 1 April 2010</b>	<b>Delivered by 1 April 2011</b>	<b>Delivered by 1 April 2012</b>
Linked to pre-construction allowance		<p><b>Reconductoring of Walpole-Norwich-Bramford 400kV circuit: Norwich-Walpole reconductoring</b> – provide evidence to show that:</p> <p>Pre-construction pre-works are complete: Provide evidence to</p>	<p><b>Reconductoring of Walpole-Norwich-Bramford 400kV circuit: Norwich-Bramford reconductoring</b> – provide evidence to show that:</p> <p>Reconductoring pre-construction works have been completed.</p>

		<p>show that design works are completed and that planning consents are achieved.</p> <p><b>Bramford substation</b> – provide evidence to show that:</p> <p>Plant layout drawings, single line diagrams and civil design works are complete. Provide evidence of 300kV GIS order.</p> <p><b>Quadrature boosters (QBs)</b> – provide evidence to show that:</p> <p>Optioneering report has been completed for the development of QBs at either Walpole/Norwich Bramford.</p> <p>A detailed program has been produced for delivery of QBs in 2016/7</p> <p>Pre-construction works have progressed in accordance with detailed program , (design, single line diagram, site and routing studies, EIA, planning and IPC</p>	<p>Provide evidence of completion of design works and confirm status of required consents.</p> <p><b>Bramford substation</b> – provide evidence to show that:</p> <p>Planning consents have been submitted and IP3 has been achieved/completed.</p> <p><b>Quadrature boosters (QBs)</b> – provide evidence to show that:</p> <p>Pre-construction works are progressing in accordance with detailed program, (design, single line diagram, site and routing studies, EIA, planning and IPC consents and land purchase/wayleaves) to begin construction works in 2016/7).</p> <p><b>Bramford – Twinstead tee 400kV Circuit;</b> provide evidence to show that:</p> <p>Evidence that initial planning consultations with relevant parties have been completed.</p>
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		<p>consents and land purchase/wayleaves) to begin construction works in 2016/7</p> <p><b>Bramford – Twinstead tee 400kv Circuit</b> – provide evidence to show that:</p> <p>An optioneering report has been completed.</p> <p>A detailed programme for both elements of works has been produced by 1 April 2011.</p> <p>Evidence that planning consultations with relevant parties have commenced.</p> <p>Provide evidence that route surveys are underway and that EIA surveys are progressing towards completion.</p>	<p>Planning application being prepared for submission to IPC.</p> <p>Project design is being progressed in line with completion in 2016/17</p>
Linked to construction allowance	<p><b>Bramford substation</b> – provide evidence to show that:</p> <p>Civil works are underway at substation site from March 2010.</p>	<p><b>Norwich-Walpole reconductoring</b> – provide evidence to show that:</p> <p>Works have started as programmed.</p> <p><b>Bramford substation</b> – provide evidence to show that:</p> <p>Civil works have progressed at</p>	<p><b>Norwich-Walpole reconductoring</b> – provide evidence to show that:</p> <p>Reconductoring of circuits is completed in 2011/12. Confirm that works have finished as programmed.</p> <p><b>Norwich-Bramford</b></p>

		substation site and that works have started on substation structures.	<p><b>reconductoring</b> – provide evidence to show that:</p> <p>Reconductoring has started by showing that plant has been ordered.</p> <p><b>Bramford substation</b> – provide evidence to show that:</p> <p>Civil and substation structures works have progressed to allow installation of GIS equipment and that remaining plant has been ordered.</p>
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### 3. Forecast output measures

Description of output measures	By 31 March 2012	Upon completion (if not completed by 31 March 2012)
Reconductoring of Walpole-Norwich 400kV circuit	The rating of this circuit should be improved to have a pre fault winter rating of 2580MVA and a post fault winter rating of 3070MVA.	
Reconductoring of Norwich-Bramford 400kV circuit	Not complete	The rating of this circuit should be improved to have a pre fault winter rating of 2580MVA and a post fault winter rating of 3070MVA by 1 April 2014.
New Bramford 400kV substation	Not complete	A new 400kV substation should be commissioned at Bramford by 1 April 2017.

## Eastern HVDC link

Funding allowed to the licensee by the Authority through provisions of Special Condition D11:

### 1. Pre-construction and Construction costs

<b>project costs</b> <b>(£ million)</b> <b>2004/05 prices</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
Pre-construction cost allowance	0.000	0.658	1.410
Construction cost allowance	0.000	0.000	0.000
Average asset value (AAVConTOInc <sub>t</sub> <sup>i</sup> )	0.000	0.329	1.346
Depreciation (ConTOIncDepn <sub>t</sub> <sup>i</sup> )	0.000	0.000	0.033

### 2. Key project milestones

<b>Description of project milestones</b>	<b>Delivered by 1 April 2010</b>	<b>Delivered by 1 April 2011</b>	<b>Delivered by 1 April 2012</b>
Linked to pre-construction allowance		<b>Eastern HVDC submarine link -</b> provide evidence to show that:  Preliminary works including network designs, high level programmes and plans, potential routes, installation designs, land/environmental	<b>Eastern HVDC submarine link -</b> provide evidence to show that:  There has been progression of site/routing studies, detailed design solutions, consultations and impact assessments

		<p>appraisals and single line diagrams have been completed in preparation for planning application.</p>	<p>in preparation for planning application.</p> <p><b>Hawthorn Pit/Lackenby substations</b> – provide evidence to show that:</p> <p>Preliminary works have commenced, including high level programs and plans, potential routes, installation designs, land/environmental appraisals and single line diagrams in preparation for planning application</p>
<p>Linked to construction allowance</p>			

## Humber

Funding allowed to the licensee by the Authority through provisions of Special Condition D11:

### 1. Pre-construction and Construction costs

<b>project costs</b> <b>(£ million)</b> <b>2004/05 prices</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
Pre-construction cost allowance	0.000	1.754	3.245
Construction cost allowance	0.000	0.000	0.000
Average asset value (AAVConTOInc <sub>t</sub> <sup>i</sup> )	0.000	0.877	3.333
Depreciation (ConTOIncDepn <sub>t</sub> <sup>i</sup> )	0.000	0.000	0.088

### 2. Key project milestones

<b>Description of project milestones</b>	<b>Delivered by 1 April 2010</b>	<b>Delivered by 1 April 2011</b>	<b>Delivered by 1 April 2012</b>
Linked to pre-construction allowance		<b>For either a Humber-Walpole HVDC link or 400kV OHL – provide evidence to show that:</b>  An optioneering report has been completed to	<b>For either a Humber-Walpole HVDC link or 400kV OHL – provide evidence to show that:</b>  There has been progression of site/detailed route

		<p>determine the optimum solution.</p> <p>Preliminary works including network designs, high level programs and plans, potential routes, installation designs, land/environmental appraisals and single line diagrams have been completed in preparation for planning application.</p> <p><b>Substation works at Humber and Walpole</b> – provide evidence to show that:</p> <p>Option studies and high level designs have been completed.</p>	<p>studies, detailed design solutions, consultations and EIAs.</p> <p><b>Substation works at Humber and Walpole</b> – provide evidence to show that:</p> <p>Further design work including single line diagram, system design specification, construction design specification, other design requirements and internal stage 2 sanction have progressed in accordance with programme.</p>
Linked to construction allowance			

## London

Funding allowed to the licensee by the Authority through provisions of Special Condition D11:

### 1. Pre-construction and Construction costs

<b>project costs (£ million) 2004/05 prices</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
Pre-construction cost allowance	0.000	2.631	1.754
Construction cost allowance	0.000	0.000	0.000
Average asset value (AAVConTOInc <sub>t</sub> <sup>i</sup> )	0.000	1.315	3.442
Depreciation (ConTOIncDepn <sub>t</sub> <sup>i</sup> )	0.000	0.000	0.132

### 2. Key project milestones

<b>Description of project milestones</b>	<b>Delivered by 1 April 2010</b>	<b>Delivered by 1 April 2011</b>	<b>Delivered by 1 April 2012</b>
Linked to pre-construction allowance		<b>Hackney – Waltham Cross</b> – provide evidence to show that:  An optioneering report has been completed to demonstrate optimum system design for the substation under	<b>Hackney – Waltham Cross</b> – provide evidence to show that:  Pre-construction works are complete, (design, single line diagram, site and routing studies, EIA,

		consideration.  Pre-construction works have started, (design, single line diagram, site and routing studies, EIA, planning and consents and land purchase/wayleaves) in line with programme to begin construction works in 2012).	planning consents and land purchase/wayleaves) in line with programme to begin construction works in 2012).
Linked to construction allowance			

## North Wales

Funding allowed to the licensee by the Authority through provisions of Special Condition D11:

### 1. Pre-construction and Construction costs

<b>project costs</b> <b>(£ million)</b> <b>2004/05 prices</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
Pre-construction cost allowance	0.000	6.095	6.314
Construction cost allowance	0.000	0.000	0.000
Average asset value (AAVConTOInc <sub>t</sub> <sup>i</sup> )	0.000	3.048	9.100
Depreciation (ConTOIncDepn <sub>t</sub> <sup>i</sup> )	0.000	0.000	0.305

### 2. Key project milestones

<b>Description of project milestones</b>	<b>Delivered by 1 April 2010</b>	<b>Delivered by 1 April 2011</b>	<b>Delivered by 1 April 2012</b>
Linked to pre-construction allowance		<b>Reconductoring Trawsfynydd to Treuddyn Tee</b> – provide evidence to show that:  Confirmation of consent decision; evidence of contract tendering, award and	<b>For all elements of the project</b> – provide evidence to show that:  Planning permission submissions, together with land purchase/easements/wayleaves and

		<p>plant ordering are progressing in line with construction commencement in 2011.</p> <p>That consent exemption consultation(s) have been completed.</p> <p><b>Series compensation</b> – provide evidence to show:</p> <p>Completion of initial feasibility and study options, stakeholder consultations and siting study. Also provide evidence of single line diagrams and physical layout designs.</p> <p><b>Pentir, Penisarwaun, Bryncir and Trawsfynydd substations</b> – provide evidence to show:</p> <p>Completion of initial feasibility and study options, stakeholder consultations and siting study.</p> <p><b>Manweb 132 replacement</b></p>	<p>environmental impact assessments have been completed in line with individual projects’ respective programmes.</p>
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		<p>Completion of initial feasibility and study options. Stakeholder consultations have commenced.</p> <p><b>New Wylfa-Pentir 400kV circuit</b> – provide evidence to show:</p> <p>Completion of initial feasibility and study options, stakeholder consultations and routing study.</p> <p><b>New Wylfa 400kV substation</b> – provide evidence to show:</p> <p>Completion of initial feasibility and study options, stakeholder consultations and siting study.</p> <p><b>Second Pentir-Trawsfynydd 400kV circuit</b> – provide evidence to show:</p> <p>Completion of initial feasibility and study options, stakeholder consultations, siting study and cable route study for cable sections crossing Glaslyn estuary.</p>	
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Linked to construction allowance			
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## South West

Funding allowed to the licensee by the Authority through provisions of Special Condition D11:

### 1. Pre-construction and Construction costs

<b>project costs</b> <b>(£ million)</b> <b>2004/05 prices</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
Pre-construction cost allowance	0.000	2.368	1.842
Construction cost allowance	0.000	0.000	0.000
Average asset value (AAVConTOInc <sub>t</sub> <sup>i</sup> )	0.000	1.184	3.230
Depreciation (ConTOIncDepn <sub>t</sub> <sup>i</sup> )	0.000	0.000	0.118

### 2. Key project milestones

<b>Description of project milestones</b>	<b>Delivered by 1 April 2010</b>	<b>Delivered by 1 April 2011</b>	<b>Delivered by 1 April 2012</b>
Linked to pre-construction allowance		<p><b>South West new line</b> – provide evidence to show that:</p> <p>Planning consultations with relevant parties have commenced.</p> <p>Route surveys are underway and that</p>	<p><b>South West new line</b> – provide evidence to show that:</p> <p>Planning works have progressed from 1 April 2011 and that project detailed design works have</p>

		EIA surveys are progressing towards completion.	commenced as programmed.
Linked to construction allowance			

## Western HVDC link

Funding allowed to the licensee by the Authority through provisions of Special Condition D11:

### 1. Pre-construction and Construction costs

<b>project costs (£ million) 2004/05 prices</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
Pre-construction cost allowance	0.000	5.052	3.859
Construction cost allowance	0.000	4.371	11.462
Average asset value (AAVConTOInc <sub>t</sub> <sup>i</sup> )	0.000	4.712	16.849
Depreciation (ConTOIncDepn <sub>t</sub> <sup>i</sup> )	0.000	0.000	0.471

### 2. Key project milestones

<b>Description of project milestones</b>	<b>Delivered by 1 April 2010</b>	<b>Delivered by 1 April 2011</b>	<b>Delivered by 1 April 2012</b>
Linked to pre-construction allowance		<b>Deeside 400kV substation</b> – provide evidence to show that:  Consents application process is underway.  Detailed design process is underway; a detailed construction plan has been drawn	<b>HVDC link:</b> provide evidence to show that:  Pre-contract release design is completed.  Contracts are drawn up over the year with suppliers by 1 April

		<p>up and relevant environmental surveys have been commissioned.</p> <p><b>HVDC link:</b> provide evidence to show that:</p> <p>Completion of network analysis studies and resulting decision on converter, cable route and landing points.</p> <p>Physical layout drawings and final decision of substation locations have been completed.</p> <p>Equipment standards and specifications for design choice have been completed.</p> <p>Sea-bed survey complete.</p> <p>Consultations and EIAs are progressing in accordance with program.</p> <p>Optimised tender design for firm price has been completed.</p>	<p>2012.</p> <p>Land access/acquisition /options and/or agreements for converter station have been completed.</p> <p>Pre-application consultation and environmental assessment works complete.</p> <p>Planning application submission to appropriate bodies complete.</p>
Linked to construction		<b>Deeside 400kV substation</b> – provide	<b>Deeside 400kV substation</b> – provide

allowance		evidence to show that: Plant/material ordering has occurred in line with the planned construction start date in 2011/12.	evidence to show that: Project has progressed in accordance with the detailed program.
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### 3. Forecast output measures

<b>Description of output measures</b>	<b>By 31 March 2012</b>	<b>Upon completion (if not completed by 31 March 2012)</b>
Deeside 400kV substation	Not complete	A 400kV substation with AC/DC conversion capability is planned to be provided by 31 <sup>st</sup> March 2016.

## SCHEDULE 2

### MODIFICATION OF THE ELECTRICITY TRANSMISSION LICENCE OF SP TRANSMISSION LIMITED PURSUANT TO SECTION 11(1) OF THE ELECTRICITY ACT 1989

#### 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:

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

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 1<sup>st</sup> 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 21<sup>st</sup> 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:

$$TOInc_t = \sum_t^{all\ i} ConTOInc_t^i + CxIncTO_t - IntTORev_t$$

where:

$ConTOInc_t^i$  means the annual revenue allowance associated with pre-construction and construction activities 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;

$CxIncTO_t^i$  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 4, 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 the annual revenue allowance,  $ConTOInc_t^i$**

2. For the purposes of paragraph 1, 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<sub>t</sub><sup>i</sup>** means the average asset value for the transmission investment project i for each of the relevant years 2009/10 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<sub>t</sub><sup>i</sup>** means one or more adjustments to the average asset value for the transmission investment project i for the relevant years 2009/10 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 3;

**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:

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

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 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.

$ConTOIncDepn_t^i$  means the depreciation value for the transmission investment project i for each of the relevant years 2009/10 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 2009/10 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 3.

***Asset value adjusting event***

3. (a) For the purpose of this paragraph, an asset value adjusting event means relevant additional pre-construction 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 2009/10 to 2011/12 (AAVConTOInc<sub>t</sub><sup>i</sup>);
- (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 pre-construction works” means an amendment to the scope of the pre-construction works expected to be carried out by the licensee during the relevant years 2009/10 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, 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 2009/10 to 2011/12 ( $AAVConTOInc_t^i$ ) 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 or any other provision within this licence;
  - (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 2009/10 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 relevant supporting information;
  - (ix) a statement from independent technical advisers setting out that in their opinion the additional pre-construction works/amended scope of construction works (as appropriate) fairly reflect the asset value adjusting event and a statement from independent auditors setting out that in their opinion the notice fairly presents the costs and expenses that have been incurred or saved by the additional pre-construction works/amended scope of the construction works (as appropriate);
  - (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 in accordance with subparagraph (g):
- (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 that an asset value adjusting event has occurred, following consultation with relevant parties, the Authority shall make necessary amendments to the provisions contained in Annex A to include values for  $AVAECOnTOInc_t^i$  and  $AVAECOnTOIncDepn_t^i$  for the relevant transmission investment project  $i$ . The Authority will also determine necessary amendments to the term  $TOIncBC_{X_n}$  to reflect the amendments made to the provisions contained in Annex A;
- (h) The Authority may revoke a determination made under this paragraph with the consent of the licensee;
- (i) For the purpose of paragraph 2, 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.

***Calculation of the annual revenue adjustment term in respect of the application of the capital expenditure incentive regime, CxIncTO<sub>t</sub>***

4. For the purpose of paragraph 1 of this condition, CxIncTO<sub>t</sub> shall in each relevant year t take the value of zero, except for the relevant year commencing 1 April 2012 in which CxIncTO<sub>t</sub> 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 2009 and accordingly the third relevant year n is the year commencing on 1 April 2011;

TOCIR<sub>n</sub> 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 2009 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	2009	2010	2011
TOCIR <sub>n</sub>	0.2312	0.1357	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	2009	2010	2011
$PVF_n$	1.19946	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 5 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 2 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services);

TOIncBC<sub>x<sub>n</sub></sub> 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 <sub>x<sub>n</sub></sub>	0.000	9.447	4.549

PIT<sub>t</sub> shall take the same meaning as given in paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue);

- For the purposes of paragraph 4, TOIncAC<sub>x<sub>n</sub></sub> shall be calculated in accordance with the following formula:

$$TOIncACx_n = TOIncCx_n - TOIncDCx_n$$

Where:

TOIncC<sub>x<sub>n</sub></sub> 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). For the avoidance of doubt, the capital expenditure associated with  $TOIncC_{x_n}$  shall be excluded from the term  $CX_n$  in paragraph 3 of special condition J7 (Capital Expenditure Incentive and Safety Net), and

$TOIncDC_{x_n}$  means the amount of capital expenditure incurred by the licensee in respect of the relevant year  $n$  associated with the relevant transmission investment projects specified in Annex A, in respect of which the Authority has issued a direction on or before 31 March 2012 in respect of relevant years from 1 April 2009 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 6 and 7 of this condition. It shall take the value of zero unless the Authority directs otherwise.

6. For the purposes of paragraph 5, 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.
7. The Authority shall have regard to any representations made by the licensee in response to the notice referred to in paragraph 6 before making any direction in respect of paragraph 5.

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

8. For each transmission investment project *i* specified in Annex A to this condition, the licensee shall provide the Authority with the following:
- (a) not later than three months after the end of each relevant year *t* in which pre-construction works take place (or such later date as the Authority may notify to the licensee):
    - (i) a pre-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 key project milestones specified in Annex A to this condition for the relevant transmission investment project *i*, and
    - (ii) a pre-construction expenditure report, setting out an itemised report of the pre-construction expenditure incurred for the transmission investment project *i* in respect of the preceding relevant year.
  - (b) Not later than three months after the end of each relevant year *t* in which construction works commence (or such later date as the Authority may notify to the licensee) an auditor's statement in respect of the expenditure incurred by the licensee and notified to the Authority in accordance with paragraph 8(a)(ii) of this condition in respect of each relevant transmission investment project in the pre-construction period.
  - (c) 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 may notify to the licensee):
    - (i) 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 for the relevant transmission investment project i, and

(ii) a construction expenditure report setting out an itemised report of the construction expenditure incurred for the transmission investment project i in respect of the preceding relevant year.

(d) Not later than three months after the end of each relevant year t in which construction works are completed (or such later date as the Authority may notify to the licensee):

(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, and

(ii) an auditor's statement in respect of the expenditure incurred by the licensee and notified to the Authority in accordance with paragraph 8(c)(ii) of this condition in respect of each relevant transmission investment project in the construction period.

9. 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.

10. (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 (3)(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 prior to the commencement of relevant construction works (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 in accordance with subparagraph (f):
  - (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 that an output measures adjusting event has occurred, following consultation with relevant parties, the Authority shall make necessary amendments to the output measures contained in Annex A for the relevant transmission investment project i.

- (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**

1. The Authority may direct changes to this Annex A to amend the details of each transmission investment project i specified in this Annex A (referred to in this Annex A as “existing projects”) and/or add details of new transmission investment projects through the provisions of this Special Condition (referred to in this Annex A as “new projects”). The Authority will consult with interested parties prior to issuing a direction.
2. The licensee may request that the Authority direct changes to the pre-construction and construction costs, key project milestones and forecast output measures described in this Annex A through the provisions set out in paragraph 1 of this Annex A by giving notice to the Authority in such form as the Authority may from time to time require. The notice shall include the information set out in paragraphs 3 and/or 4 of this Annex A (as appropriate) and such other information as the Authority may require.
3. Where the notice in paragraph 2 relates to an existing project set out in this Annex A the licensee shall give particulars of:
  - (i) the nature of the requested changes to Annex A;
  - (ii) the reasons for the request, with relevant supporting evidence to include: project development plans, planning consent details and status, detailed design works, forecast cost year-by-year profiles, forecast cost breakdowns and construction programme;
  - (iii) an up-to-date forecast of pre-construction and construction costs for the existing project;
  - (iv) progress made towards achieving key project milestones for the existing project as specified in Annex A, and, where appropriate, an updated description of key project milestones in the form set out in this Annex A

- (v) progress made towards achieving forecast output measures for the existing project as already specified in Annex A, and, where appropriate, an updated description of forecast output measures in the form set out in this Annex A
  - (vi) any other analysis or information which the licensee considers may be relevant to the Authority's consideration of the request.
4. Where the notice in paragraph 2 of this Annex A relates to a new project the licensee shall give particulars of:
- (i) a description of the new project, including, where applicable, the associated needs case
  - (ii) the nature of the requested changes to Annex A
  - (iii) the reasons for the request, with relevant supporting evidence to include: project development plans, planning consent details and status, detailed design works, forecast cost year-by-year profiles, forecast cost breakdowns and construction programme.
  - (iv) an up-to-date forecast of pre-construction and construction costs for the new project;
  - (v) where appropriate, a description of key project milestones for the new project in the form set out in this Annex A
  - (vi) where appropriate, a description of forecast output measures for the new project in the form set out in this Annex A
  - (vii) any other analysis or information which the licensee considers may be relevant to the Authority's consideration of the request.
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## Hunterston-Kintyre link

Funding allowed to the licensee by the Authority through provisions of Special Condition J12:

### 1. Pre-construction and Construction costs

<b>project costs (£ million) 2004/05 prices</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
Pre-construction cost allowance	0.000	0.262	0.175
Construction cost allowance	0.000	0.000	0.000
Average asset value (AAVConTOInc <sub>t</sub> <sup>i</sup> )	0.000	0.131	0.343
Depreciation (ConTOIncDepn <sub>t</sub> <sup>i</sup> )	0.000	0.000	0.013

### 2. Key project milestones

<b>Description of project milestones</b>	<b>Delivered by 1 April 2010</b>	<b>Delivered by 1 April 2011</b>	<b>Delivered by 1 April 2012</b>
Linked to pre-construction allowance		<b>Works at Hunterston</b> – provide evidence to show:  Consents process: Consent-related work is in progress.	<b>Works at Hunterston</b> – provide evidence to show:  Electrical, Civil and cable route works:

			that the tendering process has completed and that contracts have been awarded.
Linked to construction allowance			

## SPTL-NGET Interconnection

Funding allowed to the licensee by the Authority through provisions of Special Condition J12:

### 1. Pre-construction and Construction costs

<b>project costs</b> <b>(£ million)</b> <b>2004/05 prices</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
Pre-construction cost allowance	0.000	0.000	0.000
Construction cost allowance	0.000	4.374	0.000
Average asset value (AAVConTOInc <sub>t</sub> <sup>i</sup> )	0.000	2.187	4.264
Depreciation (ConTOIncDepn <sub>t</sub> <sup>i</sup> )	0.000	0.000	0.219

### 2. Key project milestones

<b>Description of project milestones</b>	<b>Delivered by 1 April 2010</b>	<b>Delivered by 1 April 2011</b>	<b>Delivered by 1 April 2012</b>
Linked to pre-construction allowance			
Linked to construction allowance		<b>Eccles enabling works</b> – provide evidence to show that:  Two new terminal towers have been installed between	

		existing towers 192A and 193 to facilitate the diversion of the Stella West overhead line entry.	
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### 3. Forecast output measures

Description of output measures	By 31 March 2012	Upon completion (if not completed by 31 March 2012)
Enabling works at Eccles	Two new terminal towers of L12 specification will have been installed between existing towers 192A and 193 at Eccles substation site to divert the Stella West (ZA route) overhead line entry. The existing tower ZA192 will have been removed from the site.	

## Western HVDC link

Funding allowed to the licensee by the Authority through provisions of Special Condition J12:

### 1. Pre-construction and Construction costs

<b>project costs</b> <b>(£ million)</b> <b>2004/05 prices</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
Pre-construction cost allowance	0.000	4.811	4.374
Construction cost allowance	0.000	0.000	0.000
Average asset value (AAVConTOInc <sub>t</sub> <sup>i</sup> )	0.000	2.406	6.878
Depreciation (ConTOIncDepn <sub>t</sub> <sup>i</sup> )	0.000	0.000	0.241

### 2. Key project milestones

<b>Description of project milestones</b>	<b>Delivered by 1 April 2010</b>	<b>Delivered by 1 April 2011</b>	<b>Delivered by 1 April 2012</b>
Linked to pre-construction allowance		<b>HVDC link:</b> provide evidence to show that:  Network analysis studies and resulting decision on converter, cable route and landing points have been completed.	<b>HVDC link:</b> provide evidence to show that:  Pre-contract design is complete.  Contracts are drawn up over the year with suppliers by 1 April

		<p>Physical layout drawings and final decision of substation locations have been completed.</p> <p>Equipment standards and specifications for design choice have been completed.</p> <p>Sea-bed survey is complete.</p> <p>Consultations and environmental assessments are progressing in accordance with program.</p> <p>Optimised tender design for firm price has been completed.</p>	<p>2012.</p> <p>Converter station land acquisition or options complete.</p> <p>Pre-application consultation and environmental assessment works complete.</p> <p>Planning application submission to appropriate bodies complete.</p>
Linked to construction allowance			

### SCHEDULE 3

## MODIFICATION OF THE ELECTRICITY TRANSMISSION LICENCE OF SCOTTISH HYDRO-ELECTRIC TRANSMISSION LIMITED PURSUANT TO SECTION 11(1) OF THE ELECTRICITY ACT 1989

### 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:

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

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 <sub>t</sub> 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<sub>t</sub> 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<sub>t</sub> shall take the value zero.

TOInc<sub>t</sub> 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 1<sup>st</sup> 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 21<sup>st</sup> 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:

$$TOInc_t = \sum_t^{all\ i} ConTOInc_t^i + CxIncTO_t - IntTORev_t$$

where:

$ConTOInc_t^i$  means the annual revenue allowance associated with pre-construction and construction activities 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;

$CxIncTO_t^i$  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 4, 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 the annual revenue allowance,  $ConTOInc_t^i$**

2. For the purposes of paragraph 1, 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 2009/10 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 2009/10 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 3;

**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 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.

$ConTOIncDepn_t^i$  means the depreciation value for the transmission investment project i for each of the relevant years 2009/10 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 2009/10 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 3.

***Asset value adjusting event***

3. (a) For the purpose of this paragraph, an asset value adjusting event means relevant additional pre-construction 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 2009/10 to 2011/12 (AAVConTOInc<sub>t</sub>);
  - (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 pre-construction works” means an amendment to the scope of the pre-construction works expected to be carried out by the licensee during the relevant years 2009/10 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, 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 2009/10 to 2011/12 ( $AAVConTOInc_t^i$ ) 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 or any other provision within this licence;
  - (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 2009/10 to 2011/12 ( $ConTOIncDepr_t^i$ ) 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  $AVAEConTOIncDepr_t^i$  adjustment proposed as a

- consequence of that event and how this AVAECOnTOIncDepn<sub>t</sub><sup>i</sup> adjustment has been calculated;
- (viii) relevant internal papers where revised expenditure has been requested and relevant supporting information;
  - (ix) a statement from independent technical advisers setting out that in their opinion the additional pre-construction works/amended scope of construction works (as appropriate) fairly reflect the asset value adjusting event and a statement from independent auditors setting out that in their opinion the notice fairly presents the costs and expenses that have been incurred or saved by the additional pre-construction works/amended scope of the construction works (as appropriate);
  - (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 in accordance with subparagraph (g):
- (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<sub>t</sub><sup>i</sup> 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 that an asset value adjusting event has occurred, following consultation with relevant parties, the Authority shall make necessary amendments to the provisions contained in Annex A to include values for  $AVAECOnTOInc_t^i$  and  $AVAECOnTOIncDepn_t^i$  for the relevant transmission investment project  $i$ . The Authority will also determine necessary amendments to the term  $TOIncBCx_n$  to reflect the amendments made to the provisions contained in Annex A;
- (h) The Authority may revoke a determination made under this paragraph with the consent of the licensee;
- (i) For the purpose of paragraph 2, 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.

***Calculation of the annual revenue adjustment term in respect of the application of the capital expenditure incentive regime,  $CxIncTO_t$***

4. For the purpose of paragraph 1 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 2009 and accordingly the third 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 2009 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	2009	2010	2011
TOCIR <sub>n</sub>	0.2312	0.1357	0.0313

PVF<sub>n</sub> 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	2009	2010	2011
PVF <sub>n</sub>	1.19946	1.12891	1.06250

TOIncDif<sub>n</sub> 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:

TOIncAC<sub>x<sub>n</sub></sub> 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 5 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 2 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services);

$TOIncBCx_n$  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
$TOIncBCx_n$	9.591	52.444	34.804

$PIT_t$  shall take the same meaning as given in paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue);

- For the purposes of paragraph 4,  $TOIncACx_n$  shall be calculated in accordance with the following formula:

$$TOIncACx_n = TOIncCx_n - TOIncDCx_n$$

Where:

TOIncCx<sub>n</sub> 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). For the avoidance of doubt, the capital expenditure associated with TOIncCx<sub>n</sub> shall be excluded from the term CX<sub>n</sub> in paragraph 3 of special condition J7 (Capital Expenditure Incentive and Safety Net), and

TOIncDCx<sub>n</sub> means the amount of capital expenditure incurred by the licensee in respect of the relevant year n associated with the relevant transmission investment projects specified in Annex A, in respect of which the Authority has issued a direction on or before 31 March 2012 in respect of relevant years from 1 April 2009 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 6 and 7 of this condition. It shall take the value of zero unless the Authority directs otherwise.

6. For the purposes of paragraph 5, 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.
7. The Authority shall have regard to any representations made by the licensee in response to the notice referred to in paragraph 6 before making any direction in respect of paragraph 5.

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

8. For each transmission investment project *i* specified in Annex A to this condition, the licensee shall provide the Authority with the following:
- (a) not later than three months after the end of each relevant year *t* in which pre-construction works take place (or such later date as the Authority may notify to the licensee):
    - (i) a pre-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 key project milestones specified in Annex A to this condition for the relevant transmission investment project *i*, and
    - (ii) a pre-construction expenditure report, setting out an itemised report of the pre-construction expenditure incurred for the transmission investment project *i* in respect of the preceding relevant year.
  - (b) Not later than three months after the end of each relevant year *t* in which construction works commence (or such later date as the Authority may notify to the licensee) an auditor's statement in respect of the expenditure incurred by the licensee and notified to the Authority in accordance with paragraph 8(a)(ii) of this condition in respect of each relevant transmission investment project in the pre-construction period.
  - (c) 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 may notify to the licensee):
    - (i) 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 for the relevant transmission investment project i, and

- (ii) a construction expenditure report setting out an itemised report of the construction expenditure incurred for the transmission investment project i in respect of the preceding relevant year.
- (d) Not later than three months after the end of each relevant year t in which construction works are completed (or such later date as the Authority may notify to the licensee):
- (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, and
  - (ii) an auditor's statement in respect of the expenditure incurred by the licensee and notified to the Authority in accordance with paragraph 8(c)(ii) of this condition in respect of each relevant transmission investment project in the construction period.
9. 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.
10. (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 (3)(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 prior to the commencement of relevant construction works (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 in accordance with subparagraph (f):
  - (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 that an output measures adjusting event has occurred, following consultation with relevant parties, the Authority

shall make necessary amendments to the output measures contained in Annex A for the relevant transmission investment project i.

- (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**

1. The Authority may direct changes to this Annex A to amend the details of each transmission investment project i specified in this Annex A (referred to in this Annex A as “existing projects”) and/or add details of new transmission investment projects through the provisions of this Special Condition (referred to in this Annex A as “new projects”). The Authority will consult with interested parties prior to issuing a direction.
2. The licensee may request that the Authority direct changes to the pre-construction and construction costs, key project milestones and forecast output measures described in this Annex A through the provisions set out in paragraph 1 of this Annex A by giving notice to the Authority in such form as the Authority may from time to time require. The notice shall include the information set out in paragraphs 3 and/or 4 of this Annex A (as appropriate) and such other information as the Authority may require.
3. Where the notice in paragraph 2 relates to an existing project set out in this Annex A the licensee shall give particulars of:
  - (i) the nature of the requested changes to Annex A;
  - (ii) the reasons for the request, with relevant supporting evidence to include: project development plans, planning consent details and status, detailed design works, forecast cost year-by-year profiles, forecast cost breakdowns and construction programme;
  - (iii) an up-to-date forecast of pre-construction and construction costs for the existing project;
  - (iv) progress made towards achieving key project milestones for the existing project as specified in Annex A, and, where appropriate, an updated description of key project milestones in the form set out in this Annex A

- (v) progress made towards achieving forecast output measures for the existing project as already specified in Annex A, and, where appropriate, an updated description of forecast output measures in the form set out in this Annex A
  - (vi) any other analysis or information which the licensee considers may be relevant to the Authority's consideration of the request.
4. Where the notice in paragraph 2 of this Annex A relates to a new project the licensee shall give particulars of:
- (i) a description of the new project, including, where applicable, the associated needs case
  - (ii) the nature of the requested changes to Annex A
  - (iii) the reasons for the request, with relevant supporting evidence to include: project development plans, planning consent details and status, detailed design works, forecast cost year-by-year profiles, forecast cost breakdowns and construction programme.
  - (iv) an up-to-date forecast of pre-construction and construction costs for the new project;
  - (v) where appropriate, a description of key project milestones for the new project in the form set out in this Annex A
  - (vi) where appropriate, a description of forecast output measures for the new project in the form set out in this Annex A
  - (vii) any other analysis or information which the licensee considers may be relevant to the Authority's consideration of the request.

**Beauly-Blackhillock-Kintore**

Funding allowed to the licensee by the Authority through provisions of Special Condition J12:

**1. Pre-construction and Construction costs**

<b>project costs (£ million) 2004/05 prices</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
Pre-construction cost allowance	0.000	0.000	0.000
Construction cost allowance	4.459	11.407	2.608
Average asset value (AAVConTOInc <sub>t</sub> <sup>i</sup> )	2.230	10.051	16.550
Depreciation (ConTOIncDepn <sub>t</sub> <sup>i</sup> )	0.000	0.223	0.793

**2. Key project milestones**

<b>Description of project milestones</b>	<b>Delivered by 1 April 2010</b>	<b>Delivered by 1 April 2011</b>	<b>Delivered by 1 April 2012</b>
Linked to pre-construction allowance			
Linked to construction allowance	<b>Reconductoring Beauly – Blackhillock -</b> provide evidence to show that:	<b>Reconductoring Beauly – Blackhillock -</b> provide evidence to show that:	<b>Reconductoring Blackhillock - Kintore –</b> provide evidence to show that:

	Reconductoring of the Beaulieu – Blackhillock section of line from tower 1 to tower 104 is underway.	Reconductoring of the Beaulieu – Blackhillock line from towers 1 to 104 was completed in November 2010 as programmed.	Reconductoring of the remaining Blackhillock – Kintore section of line is underway.
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### 3. Forecast output measures

<b>Description of output measures</b>	<b>By 31 March 2012</b>	<b>Upon completion (if not completed by 31 March 2012)</b>
Reconductoring Beaulieu-Blackhillock line	Towers 1 to 104 of the Beaulieu-Blackhillock section of line are planned to be reconducted with 2x208mm <sup>2</sup> GTACSR GAP sub-conductors per phase to increase the available capacity.	Towers 1 to 328 of the Beaulieu-Blackhillock section of line are planned to be reconducted with 2x208mm <sup>2</sup> GTACSR GAP sub-conductors per phase to increase the available capacity by approximately 500MW by 31 March 2015.
Reconductoring Blackhillock-Kintore line	Not complete	The Blackhillock - Kintore section of line are planned to be reconducted with 2x208mm <sup>2</sup> GTACSR GAP sub-conductors per phase to increase the available capacity by 31 March 2014.

## **Beaully-Dounreay**

Funding allowed to the licensee by the Authority through provisions of Special Condition J12:

### 1. **Pre-construction and Construction costs**

<b>project costs (£ million) 2004/05 prices</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
Pre-construction cost allowance	0.000	0.000	0.000
Construction cost allowance	0.000	18.614	21.002
Average asset value (AAVConTOInc <sub>t</sub> <sup>i</sup> )	0.000	9.307	28.650
Depreciation (ConTOIncDepn <sub>t</sub> <sup>i</sup> )	0.000	0.000	0.931

### 2. **Key project milestones**

<b>Description of project milestones</b>	<b>Delivered by 1 April 2010</b>	<b>Delivered by 1 April 2011</b>	<b>Delivered by 1 April 2012</b>
Linked to pre-construction allowance			
Linked to construction allowance		<b>Reconductoring and Quadrature boosters</b> - provide evidence to show that: Civil works including access	<b>Reconductoring and Quadrature boosters</b> - provide evidence to show that: Tower strengthening

		<p>upgrades/installation, bridge installs, road upgrades/strengthening, steelwork member upgrades and helicopter landing sites are substantially completed.</p> <p>Construction works have started on tower strengthening and foundation reinforcement works in line with the programme to restring the conductor later in 2011.</p> <p>132kV line diversion works with wood poles have started.</p> <p>33/11kV Distribution line undergrounding works have started.</p> <p><b>Dounreay substation works</b> – provide evidence to show that: Circuit breakers have been manufactured and that transformers are being manufactured.</p>	<p>and foundation reinforcement is substantially complete and that reconductoring was able to occur in the 2011 planned network outage.</p> <p><b>Dounreay substation works</b> – provide evidence to show that: Civil works and Electrical installation works have commenced from January 2011 as programmed.</p> <p>Transformers have been delivered and installed as programmed.</p>
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### 3. Forecast output measures

Description of output measures	By 31 March 2012	Upon completion (if not completed by 31 March 2012)
Reconductoring Beaulieu-Dounreay line and installation of quadrature boosters at grid supply points	Not complete	<p>A second 275kV conductor shall be installed on the existing Beaulieu-Dounreay line and two Quad Boosters are planned to be installed on the 132 kV circuits between Beaulieu and Shin Grid Supply Points by 31 March 2013.</p> <p>The circuit rating post construction is planned to be 1057Amperes summer pre-fault and near to 700MVA post fault winter rating. This will increase the boundary capacity north of Beaulieu by approximately 100MW.</p>
Dounreay substation reinforcement	Not complete	<p>By 31 March 2013, Dounreay substation is planned to have a 275kV GIS busbar comprising one bus section, one bus coupler, two incomer bays (BUE) and two autotransformer bays. It is planned to leave space for two 240MVA 275/132kV autotransformers, complete with 60MVAr shunt reactors. A new 9 way 132kV GIS switchboard will be installed. A complete set of 275kV and 132kV protection, control and auxiliary equipment will be installed.</p>

## Eastern HVDC link

Funding allowed to the licensee by the Authority through provisions of Special Condition J12:

### 1. Pre-construction and Construction costs

<b>project costs (£ million) 2004/05 prices</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
Pre-construction cost allowance	0.000	0.656	2.462
Construction cost allowance	0.000	0.000	0.000
Average asset value (AAVConTOInc <sub>t</sub> <sup>i</sup> )	0.000	0.328	1.871
Depreciation (ConTOIncDepn <sub>t</sub> <sup>i</sup> )	0.000	0.000	0.033

### 2. Key project milestones

<b>Description of project milestones</b>	<b>Delivered by 1 April 2010</b>	<b>Delivered by 1 April 2011</b>	<b>Delivered by 1 April 2012</b>
Linked to pre-construction allowance		<b>For the HVDC link and the substation works at Peterhead - provide evidence to show that:</b>  Preliminary works including network designs, high level programmes and	<b>For the HVDC link and the substation works at Peterhead - provide evidence to show that:</b>  There has been progression of site/routing studies, detailed design

		plans, potential routes, installation designs, land/environmental appraisals and single line diagrams are complete in preparation for planning application.	solutions, consultations and impact assessments in preparation for planning application.
Linked to construction allowance			

## Knocknagael

Funding allowed to the licensee by the Authority through provisions of Special Condition J12:

### 1. Pre-construction and Construction costs

<b>project costs</b> <b>(£ million)</b> <b>2004/05 prices</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
Pre-construction cost allowance	0.000	0.000	0.000
Construction cost allowance	5.132	21.767	8.732
Average asset value (AAVConTOInc <sub>t</sub> <sup>i</sup> )	2.566	15.887	30.336
Depreciation (ConTOIncDepn <sub>t</sub> <sup>i</sup> )	0.000	0.257	1.345

### 2. Key project milestones

<b>Description of project milestones</b>	<b>Delivered by 1 April 2010</b>	<b>Delivered by 1 April 2011</b>	<b>Delivered by 1 April 2012</b>
Linked to pre-construction allowance			
Linked to construction allowance	<b>Knocknagael 275/132kV substation</b> – provide evidence to show that: Environmental	<b>Knocknagael 275/132kV substation</b> – provide evidence to show that: Civil works – site establishment (welfare	<b>Knocknagael 275/132kV substation</b> – provide evidence to show that: Underground cabling

	<p>preparation works, and Civil works (including Pre-Start works – install bellmouth/passing places, sealing end road, Drumdevan bridge works and drainage works) are complete.</p> <p>Site establishment – welfare facilities and compound strip are progressing towards completion.</p> <p>Show that overhead line works have begun construction.</p>	<p>facilities and compound strip) are complete.</p> <p>Civil works – Earthworks, the 132kV compound, the 275kV compound and the Control building have been completed.</p> <p>Underground cabling works have begun construction.</p> <p>Overhead line works: overhead line towers have completed construction.</p> <p>Electrical Installation works have begun construction and that 132kV primary equipment has completed construction.</p>	<p>works and Electrical Installation works have completed construction.</p> <p>Commissioning of both the 275kV and 132kV compounds has been achieved.</p> <p>Overhead line works have completed construction.</p>
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### 3. Forecast output measures

Description of output measures	By 31 March 2012	Upon completion (if not completed by 31 March 2012)
275/132kV substation built to 400kV capability	A 275/132kV substation built to 400kV specification is	

at Knocknagael	planned to be established releasing 275kV capacity to the NW region by 31 March 2012.	
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