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Dear Scott,

NOTIFICATION UNDER SPECIAL CONDITION J3 PARAGRAPH 6(C) OF SCOTTISH POWER TRANSMISSION'S ELECTRICITY TRANSMISSION LICENCE - EXTENSION OF THE DEADLINE FOR NOTIFICATION OF A TIRG ASSET VALUE ADJUSTING EVENT FOR TRANSMISSION INVESTMENT PROJECT BEAULY-DENNY IN RESPECT OF TIRG RELEVANT YEARS T=0 to T=N

Introduction

The Beaulay-Denny transmission line is a major reinforcement running from northern to central Scotland, funding for which was approved by Ofgem through the Transmission Investment for Renewable Generation (TIRG) mechanism in December 2004. The project has been subject to a public planning inquiry, and has only recently received consent from the Scottish Government to proceed, subject to a number of key conditions. When Ofgem approved funding for Beaulay-Denny, it set out in the transmission licence the anticipated spend for the project from $t=0$ (being the first year of construction) to $t=n$, (the last year of construction).

As a consequence of the Scottish Government's consent conditions, SP Transmission intends to change the profile of spend in the construction period, and therefore the asset value of the project. Special Condition J3, paragraph 6(c)¹ of the transmission licence specifies that if the licensee considers an Asset Value Adjusting Event has occurred, or is expected to occur, it must provide the Authority with a notice together with the information set out in paragraph 6(d) of that condition for the full construction period, as soon as is reasonably practicable after that event and prior to TIRG relevant year $t=0$ (or at such later date as the Authority notifies the licensee). In this case, relevant year $t=0$ started on 1 April 2010.

SP Transmission is currently developing mitigation measures designed to meet the Scottish government's consent conditions for Beaulay-Denny. However, SP Transmission has confirmed that it will not know the outcome of the process and therefore the profile of expenditure in the construction period. Consequently it is not in a position to confirm what changes will need to be made to the average asset value specified in the transmission licence until it has completed these works and the associated tendering

¹ Which can be found at Ofgem's electronic public register at:
http://epr.ofgem.gov.uk/document_fetch.php?documentid=14832

activities. SP Transmission envisages that it would be in a position to present final costs for the entire project by the end of the current financial year, ending on 31 March 2011. SP Transmission considers that the later date of submission will also allow it to engage with consultants in order to undertake a technical and financial audit of the revised costs ahead of submitting the notice to Ofgem. SP Transmission is therefore requesting the Authority grants an extension for submission of the asset value adjusting event and associated information of one financial year.

Annex 1 provides further information on the Beaulieu-Denny project whilst Annex 2 describes the licensing arrangements in more detail.

The Authority's notification

The Authority takes the view that it is in network users' and consumers' best interests to allow SP Transmission an extension to submit updated cost information for Beaulieu-Denny once the works to satisfy the consent conditions have been identified. As a result, and in accordance with the provisions of Special Condition J3, paragraph 6(c), the Authority agrees to extend the timetable to permit SP to submit a TIRG Asset Value Adjusting Event notice for relevant years $t=0$ to $t=n$ on or before 31 March 2011.

If you have any queries in relation to the issues raised in this letter, please feel free to contact David Hunt on 020 7901 7429 or via email at david.hunt@ofgem.gov.uk.

Yours sincerely,

Hannah Nixon
Partner

For and on behalf of the Authority

Annex 1 – Further information on the Beaully-Denny project

Special Condition J3 of SP Transmission's Electricity Transmission Licence sets out restrictions in relation to the revenue allowances associated with Transmission Investment for Renewable Generation (TIRG). The TIRG mechanism provides approval for funding to connect a large volume of renewable generation that was not forecast at the time that the relevant price controls were set for the transmission licensees. TIRG provides explicit revenue allowances and associated output measures (in Schedule C: "Supplementary provisions to Special Condition J3" in the transmission licences) for each of the transmission projects covered by the mechanism.

When funding for TIRG was approved in December 2004, it was based on project-specific allowances for four discrete reinforcements². We recognised, however, given the inherently uncertain volume and nature of the new connections that it was appropriate to provide the potential for funding allowances that could be amended subject to Authority approval, in case the allowed TIRG revenue proved inadequate.

On 28 September 2005, SHETL applied for planning consent to install a double circuit 400 kV overhead transmission line from Beaully to Denny. The transmission line would be a joint project between SHETL and SP Transmission. The new line would replace an existing 132 kV line: one circuit to operate at 400 kV to provide a high capacity circuit between Beaully and Denny and the other circuit to operate at 275 kV to provide a circuit into which much of the generation in the area between Beaully and Denny could be connected.

The Beaully-Denny line passes through a number of cultural and historical sites and, due to strong local opposition, became subject to a planning inquiry. After two years of deliberation, the inquiry reporters submitted their final report to the Scottish Government on 19 February 2009.

After consideration of the report, the Scottish Government granted consent to the project on 06 January 2010 with conditions imposed in relation to mitigation of the visual and environmental impact of the transmission line. Moreover, Scottish Ministers considered that the terms of the consent could be varied every six months in order to meet unanticipated issues that may arise.

In order to meet the Scottish Government's conditions of consent, SP Transmission has requested additional time from Ofgem regarding submission of the necessary information in order to consider the revised activities that need to take place to satisfy the consent conditions, and consequently it is not in a position to provide full information to Ofgem at this time. SHETL has similarly requested and received approval from the Authority to extend the deadline for submission of the Asset Value Adjusting Event for the full construction period³. Neither SHETL nor SP Transmission are able to finalise the overall scope of works for the construction period, and hence capital cost, of the Beaully-Denny project until they have undertaken the work necessary to satisfy the consent conditions.

² Several other projects were not considered to be sufficiently certain at the time of TIRG for funding to be approved.

³ This notice can be found at the following link:

<http://www.ofgem.gov.uk/Networks/Trans/ElecTransPolicy/CriticalInvestments/TIRG/Documents1/EXTENSION%20OF%20THE%20DEADLINE%20FOR%20NOTIFICATION.pdf>

Annex 2 - Relevant licence provisions

Special Condition J3 – Restriction of transmission charges: Transmission Investment for Renewable Generation - Part A – TIRG Revenue allowance paragraph 6(c), (d), (e):

6 (c) Where the licensee considers, and can provide supporting evidence that, a TIRG asset value adjusting event has occurred in relation to the transmission investment project i , then the licensee shall give notice of that event to the Authority as soon as is reasonably practicable after that event has occurred and in any event prior to TIRG relevant year $t=0$ (or at such later date as the Authority notifies to the licensee for the purposes of this subparagraph).

(d) A notice provided under subparagraph (c) shall be accompanied by a statement from independent technical advisors setting out the additional preconstruction works / amended scope of construction works (as appropriate) and a statement from independent auditors setting out that in their opinion the notice fairly presents the costs and expenses expected to be incurred or saved by the additional preconstruction works / amended scope of construction works (as appropriate) and shall give particulars of:

- (i) the TIRG asset value adjusting event to which the notice relates and the reason(s) why the licensee considers that event to be a TIRG asset value adjusting event;
- (ii) the costs and/or expenses that the licensee can demonstrate are expected to be incurred or saved by that event and how the amount of those costs and/or expenses have been calculated;
- (iii) the amount of any material increase or decrease in the average asset value for the transmission investment project i for TIRG relevant years $t=0$ to $t=n$ (FTIRG $_{Ct}$) that the licensee can demonstrate is expected to occur as a result of that event and how the amount of that increase or decrease has been calculated;
- (iv) the reasons why the licensee considers that the costs and/or expenses can not otherwise be recovered under the TIRG revenue allowance provided by this condition;
- (v) the amount of any AFFTIRG $_{it}$ adjustment proposed as a consequence of that event and how this AFFTIRG $_{it}$ adjustment has been calculated;
- (vi) the amount of any increase or decrease in the depreciation value for the transmission investment project i for the TIRG relevant years $t=0$ to $t=n$ (FTIRG $_{Depn\,it}$) 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 AFFTIRG $_{Depn\,it}$ adjustment proposed as a consequence of that event and how this AFFTIRG $_{Depn\,it}$ adjustment has been calculated; and
- (viii) any other analysis or information which the licensee considers to be relevant to the Authority's assessment of that event.

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

- (i) whether a TIRG asset value adjusting event has occurred in respect of the transmission investment project i ;
- (ii) where the Authority determines that a TIRG asset value adjusting event has occurred in respect of the transmission investment project i , whether the transmission investment project i will remain economically efficient as a consequence of that TIRG asset value adjusting event;
- (iii) a $AFFTIRG_{it}$ adjustment in respect of the transmission investment project i ;
and
- (iv) a $AFFTIRGDepn_{it}$ adjustment in respect of the transmission investment project i .