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Dear Colleague

Transmission Investment Incentives: statutory consultation and Notice under Section 11A(2) of the Electricity Act 1989 on proposed modifications to extend Special Condition AA: Transmission Area of National Grid Electricity Transmission plc and SP Transmission Ltd electricity transmission licences to include the Western HVDC link

The purpose of this letter is to consult on proposed licence changes to extend the transmission area of National Grid Electricity Transmission plc (NGET) and SP Transmission Ltd (SPTL)'s electricity transmission licences to include the Western HVDC Link.

The attached Notices under Section 11A(2) of the Electricity Act 1989 ("the Act") set out our proposal to modify Special Condition AA: transmission area of the electricity transmission licences of NGET and SPTL. The proposed modifications are set out in the attached Schedules 1 and 2.

The Authority has previously reached a minded-to position, subject to the conditions set out below, regarding the requests received from NGET and SPTL for funding¹ of construction works on the Western High Voltage Direct Current (HVDC) Link under the Transmission Investment Incentives (TII) framework².

The Authority's minded-to position was set out in the "Transmission Investment Incentives: consultation on minded-to position for the Western High Voltage Direct Current (HVDC) link ("Western Bootstrap")" published on 1 August 2011 (our **August 2011 consultation**)³. The Authority's minded-to position was subsequently maintained in the "Transmission Investment Incentives: update on Western High Voltage Direct Current (HVDC) link" published on 10 November 2011 (our **November 2011 update**)⁴.

¹ By "funding under TII" we mean to allow efficient cost recovery via a revenue stream calculated under the relevant provisions of the TII framework.

² The TII framework is set out in Special Condition D11 of NGET's licence and Special Condition J12 of the licences of SPTL and Scottish Hydro Electric Transmission Ltd (SHETL). Its purpose is to provide project-specific, interim funding (for each year up to the next price control period) for critical large-scale investments that the TOs identify are required to support achievement of the Government's 2020 renewable energy targets.

³ Transmission Investment Incentives: consultation on minded-to position for the Western High Voltage Direct Current (HVDC) link ("Western Bootstrap"):
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=10&refer=Networks/Trans/ElecTransPolicy/CriticalInvestments/InvestmentIncentives>

⁴ Transmission Investment Incentives: update on Western High Voltage Direct Current (HVDC) link ("Western Bootstrap"):
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=20&refer=Networks/Trans/ElecTransPolicy/CriticalInvestments/InvestmentIncentives>

There are a number of conditions attached to the Authority's minded-to position. **The licence modifications proposed in the attached Notices seek to address the condition relating to successful resolution of relevant licensing issues** (condition c below). However, **this does not prejudice the Authority's final decision on the funding requests. That decision remains subject to a successful outcome on all of the conditions attached to the minded-to position.** Further licence modifications may be necessary to give effect to any decision of the Authority.

Further details on the reasons for the proposed licence modifications are set out in our August 2011 consultation and our November 2011 update referred to above – these are explained further below. Details of how to respond to this statutory consultation are set out below. Any representations on the proposed licence modifications set out in the attached Notices should be made in writing on or before **Wednesday 4 January 2012.**

Background

The electricity Transmission Owners' (TOs) strategic investment programme for accommodating the anticipated significant growth of renewable generation in Scotland includes a subsea "**bootstrap**" running down the west coast, referred to as the **Western HVDC link**. It is being developed jointly by NGET and SPTL for the purpose of delivering significant additional capacity (~2GW) for North-South transfers on the onshore transmission system which would otherwise be heavily constrained by the limited capacity on existing circuits. NGET and SPTL plan to place construction contracts later this year, in order to enable delivery of the link in 2015, and sought construction funding from 2011-12 under our TII framework.

As set out in our August 2011 consultation, the Authority reached a **minded-to position to allow efficient cost recovery under TII for construction works on the Western HVDC link from 2011/12, 'in principle', subject to the following conditions:**

- a) consideration of responses to our August 2011 consultation
- b) a positive conclusion from our ongoing project assessment
- c) successful resolution of relevant licensing issues
- d) successful resolution by the TOs of any licensing issues with the relevant authorities of Northern Ireland and Isle of Man, and any planning consents
- e) statutory consultation on the relevant licence modifications to give effect to the Authority's final decision.

Our November 2011 update set out our further conclusions in light of responses to the August 2011 consultation and further work conducted since August and confirmed that:

- **The Authority has maintained the minded-to position previously set out in our August 2011 consultation**, while noting the progress made against certain conditions attached to that position.
- In doing so, **the Authority has concluded that there is a case for delivering the link in 2015**, ie that there is a consumer benefit from the project and that it supports the proposed timing of the link.
- **The focus of our ongoing project assessment going forward (condition b above) will be on issues relevant to the determination of the specifics of funding.**
- However, **the Authority's final funding decision will remain subject to a successful outcome on the conditions attached to the minded-to position and no material escalation in expected costs.**

Relevant licensing issues

The Western HVDC link as currently proposed by the TOs will form part of the onshore transmission system and connect one part of GB to another. The proposal includes an HVDC cable the proposed route of which runs from its northern connection point in SPTL's transmission area to its southern connection point in NGET's transmission area, via an undersea corridor which extends outwith the current authorised transmission areas of both SPTL and NGET. Therefore we have been considering the licensing issues and any necessary amendments. One of the conditions attached to the Authority's minded-to position (condition c above) is a successful resolution of these issues.

In reviewing progress against this condition for our November 2011 update, we took into account views on this issue expressed by respondents to our August 2011 consultation. Two respondents were keen to see progress in developing appropriate licensing arrangements. Of these, one respondent suggested that, alongside addressing the licensing for the proposed Western HVDC Link, we should also address the similar issues that would arise for any future projects that also went beyond the transmission areas of the relevant onshore TO.

The November 2011 update confirmed that, in relation to this specific condition (condition c above), we are satisfied that the Authority is able to licence NGET and SPTL with respect to the Western HVDC link, subject to appropriate changes to the transmission licence. We have been considering the detail and timing of these licence changes.

We note the potential merits of developing these licence changes in a way which may be applied to other projects extending outside a given licensee's current transmission area. We also note the urgent need to resolve the licensing issues relevant to the specific case of the Western HVDC link as part of our work towards a final decision on the funding request, and our proposed licence modifications are specific to this context, as set out below. However, we are continuing to consider these wider licensing issues more generally including through the Offshore Transmission Coordination Project⁵.

Intent of the proposed licence modification

Special Condition AA of the electricity transmission licence identifies the Transmission Area for the relevant licensee, which defines the geographical scope of the TO's licensable activities. We are proposing to amend the Transmission Area for NGET and SPTL in a way which extends this geographical scope such that it may include the Western HVDC link.

The licence modifications we are proposing at this time, which we consider to be sufficient to satisfy condition c attached to the Authority's minded-to position, are explicitly intended to be specific to the Western HVDC link as it is currently proposed by the TOs in the context of the current regulatory and licensing arrangements. We may, subject to the licence modification process, update the definition of the Link once the construction works have been completed to ensure that the Western HVDC link is accurately reflected within the Transmission Area, eg in the same way that the "Cruachan Transmission Line" is currently defined in SPTL's licence.

We may also need to update the definition of the transmission area if there is any relevant changes including to the intended purpose, broad scope and approximate geographical location of the component parts⁶ of the overall Western HVDC link. Where applicable, we will further review the relevant licensing issues and the conditions attached to the Authority's minded-to position, and this may lead to further licence modification proposals.

⁵ For more information about the Offshore Transmission Coordination Project, see: <http://www.ofgem.gov.uk/Networks/offtrans/pdc/pwg/OTCP/Pages/OTCP.aspx>

⁶ These component parts are described in Appendix 1 of our August 2011 consultation document. The funding request relates to the HVDC component, comprising the HVDC cable and convertor stations at either end.

The attached Notices set out our proposed revisions to Special Condition AA of NGET's transmission licence (see Schedule 1) and Special Condition AA of SPTL's transmission licence (see Schedule 2). In the attached Schedules, the existing drafting of the relevant licence conditions is shown in black text and the changes we are proposing to make to this drafting are shown in tracked changes using red text.

Way forward and next steps

Following closure of this consultation on **Wednesday 4 January 2012** the Authority will consider any responses. Subject to maintaining its minded-to position set out above, the Authority will either determine that the changes proposed in the attached Annexes and Schedules will be approved (or approved subject to minor alterations) and the licence will be modified, or it will consult again together with reasons why it has chosen to do so. If the decision is to approve, our intended aim is for the proposed modifications set out in the attached Schedules to take effect at least 56 days after the decision is published.


Consultation responses

Any representations on the proposed modifications set out in this Notice must be made in writing on or before Wednesday 4 January 2012 to Cheryl Mundie at cheryl.mundie@ofgem.gov.uk.

All responses will normally be published on Ofgem's website and held in the Research and Information Centre. However, if respondents do not wish their response to be made public then they should clearly mark their response as not for publication. Ofgem prefers to receive responses in an electronic form so they can be placed easily on the Ofgem website.

If you wish to discuss any of the issues raised in this open letter and associated Section 11A consultation please contact Cheryl Mundie (cheryl.mundie@ofgem.gov.uk).

Yours sincerely

A handwritten signature in black ink, appearing to read 'H Nixon', on a light-colored background.

Hannah Nixon,
Acting Senior Partner – Smarter Grids & Governance: Transmission