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Dear Colleague

Transmission Investment Incentives: Statutory consultation and Notices under section 11A(2) of the Electricity Act 1989 of proposed modifications to electricity transmission licences

The Transmission Investment Incentives¹ (TII) framework was introduced in April 2010² to provide project-specific, interim funding³ for critical, large-scale investment projects that the Transmission Owners (TOs) identify are required to support achievement of the Government's 2020 renewable energy targets. Originally applying to the price control period (TPCR4) which ended on 31 March 2012, it is being extended to apply under the one year adapted rollover of TPCR4 (TPCR4 rollover)⁴ which will end on 31 March 2013.

The purpose of this letter is to consult on proposed licence changes to reflect:

- the extension of the TII policy framework into 2012-13, and
- the capital expenditure allowances determined by the Authority through TII funding decisions to date in respect of specific planned pre-construction and/or construction works on identified transmission reinforcement works up to the end of the financial year 2012-13.

The three TOs affected by this licence change are National Grid Electricity Transmission plc (NGET), SP Transmission Ltd (SPTL) and Scottish Hydro Electric Transmission Ltd (SHETL). The licence changes do not affect the TOs' allowed revenues for 2012-13.

Attached in the annexes to this letter are three Notices under section 11A(2) of the Electricity Act 1989 ("the Act") of our proposed modifications to the electricity transmission licences held by NGET, SPTL and SHETL respectively.

¹ TII webpage:

<http://www.ofgem.gov.uk/Networks/Trans/ElecTransPolicy/CriticalInvestments/InvestmentIncentives/Pages/InvestmentIncentives.aspx>

² For more detail, see: "Enhanced Transmission Investment Incentives: Final Proposals" (Ref 04/10), Jan'10:

<http://www.ofgem.gov.uk/Networks/Trans/ElecTransPolicy/TAR/Pages/Traccrw.aspx>

³ By "funding under TII", we mean efficient cost recovery allowed via a revenue stream calculated under the relevant provisions of the TII framework. These provisions are currently set out in Special Condition D11 (with linkages to D2) of NGET's licence and in Special Condition J12 (with linkages to J2) of the licences of SPTL and SHETL.

⁴ TPCR4 Rollover webpage: <http://www.ofgem.gov.uk/Networks/Trans/PriceControls/TPCR4Rollover/Pages/TPCR4Roll-over.aspx>

Specifically, we propose to amend Special Conditions D2 and D11 of NGET's licence; and Special Conditions J2 and J12 of the licences of SPTL and SHETL. The proposed modifications to these conditions for each licensee are set out in Schedules 1 and 2 respectively of the relevant Notice.

Further details on the reasons for the proposed licence modifications are set out in this letter with reference to our **November 2011 policy decision letter**⁵ and our **January 2012 funding decision letter**⁶. The proposed licence modifications also follow on from previous licence changes in respect of our **January 2011 funding decisions**⁷ and our **January 2010 Final Proposals**⁸. Those licence changes reflected the TII funding decisions for the period up to the end of the financial year 2011-12. As set out in the November 2011 policy decision letter, we are extending these past TII funding decisions to cover the financial year 2012-13.

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 must be made in writing on or before **8 May 2012**.

Background

The TII framework is being extended to 2012-13 under the TPCR4 rollover. For all projects considered under TII, funding arrangements to apply from 1 April 2013 are addressed in our work on the next full price control review, RIIO-T1⁹, which will take effect on 1 April 2013.

As discussed in more detail in the November 2011 policy decision letter, for the purposes of the TPCR4 Rollover Final Proposals¹⁰, the baseline allowance for each TO in 2012-13 has been set taking into account an aggregate provisional TII allowance. Further, the revenue for 2012-13 includes a provisional revenue adjustment in respect of the application of the capital efficiency incentive to expenditure under TII to end 2010-11. As a consequence, **while capital expenditure allowances will continue to be determined under TII and reflected in the licence, they no longer feed directly into the revenue calculation**. Such allowances will instead be taken into account in determining further revenue adjustments to be made in subsequent years in relation to:

- the true-up between allowances assumed for the purposes of setting revenue in a given year and the final allowances determined for that year; and,
- the application of the capital efficiency incentive to expenditure under TII to end 2012-13.

⁵ Transmission Investment Incentives (TII): decisions on extending the policy framework into 2012-13, Nov'11: <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=29&refer=Networks/Trans/ElecTransPolicy/CriticalInvestments/InvestmentIncentives>

⁶ Transmission Investment Incentives (TII): decision on requests for funding in 2012-13, Jan'12: <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=43&refer=Networks/Trans/ElecTransPolicy/CriticalInvestments/InvestmentIncentives>

⁷ Transmission Investment Incentives: statutory consultation on first stage of licence changes to give effect to decisions set out in decision letter of 21 January 2011, Mar'12: <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=6&refer=Networks/Trans/ElecTransPolicy/CriticalInvestments/InvestmentIncentives>

⁸ Enhanced Transmission Investment Incentives: statutory consultation on licence changes to give effect to Final Proposals, Feb'10: <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=13&refer=Networks/Trans/ElecTransPolicy/TAR>

⁹ RIIO-T1 webpage: <http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/Pages/RIIO-T1.aspx>

¹⁰ Transmission Price Control Review 4 (TPCR4) Rollover: Final Proposals, Nov'11: <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=75&refer=Networks/Trans/PriceControls/TPCR4Rollover>

Against this background, **the proposed licence modifications set out in the Annexes to this section 11A consultation have three aims:**

1. to extend the TII framework into 2012-13 in line with our November 2011 policy decision letter,
2. and in so doing, to reflect capital expenditure allowances for 2012-13 determined in line with extension of past TII funding decisions set out in our January 2011 funding decisions and our January 2010 Final Proposals, and
3. additionally, to reflect further capital expenditure allowances for 2012-13 determined in line with the TII funding decisions set out in our January 2012 funding decision letter.

With these licence changes in effect, the total level of capital expenditure allowances determined under TII to the end of 2012-13 will be **£617 million** (2009-10 prices).

Development of licence changes

Overview

Alongside our November 2011 policy decision letter we published our **November 2011 informal licence consultation**¹¹ on initial drafting of licence changes covering the first two of the three aims set out above. Since closure of that consultation we have further developed the drafting in light of responses and through further discussion with the TOs. We have also incorporated licence changes to reflect the decisions we have subsequently reached on a number of TII funding requests as set out in our January 2012 funding decision letter. Finally, we have further refined our approach to deal with capital expenditure allowances determined in the context of RIIO-T1, as set out below.

Key changes since November

Having confirmed our January 2012 funding decisions, the only TII funding requests which we are continuing to assess are NGET's and SPTL's requests¹² for construction funding for the High Voltage Direct Current (HVDC) component of the Western HVDC link. We are retaining flexibility to vary aspects of the TII framework when funding this project if we conclude it has materially different characteristics to projects funded under TII to date. We expect to issue a separate section 11A consultation on any licence changes we consider necessary to reflect our final decision on these requests.

Our November 2011 informal licence consultation included provisions for TII funding events as a flexible means of enabling subsequent amendment to the licence to reflect decisions on TII funding requests which we were continuing to assess in November. In light of the points in the preceding paragraph we consider that those provisions are no longer necessary. We have simplified the drafting in a number of areas as a result, eg in relation to the identification of works which are in scope of other parts of the licence already in place, such as the asset value adjusting event and output measures adjusting event provisions.

¹¹ "TII: informal consultation on licence changes to extend the policy framework into 2012-13" (Ref 164/11), Nov'11

<http://www.ofgem.gov.uk/Networks/Trans/ElecTransPolicy/CriticalInvestments/InvestmentIncentives/Pages/InvestmentIncentives.aspx>

¹² Transmission Investment Incentives (TII): further update on Western High Voltage Direct Current (HVDC) link ("Western Bootstrap"), Feb'12:

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=48&refer=Networks/Trans/ElecTransPolicy/CriticalInvestments/InvestmentIncentives>

We remain of the view that it is appropriate to remove the provisions for TOs to be able to submit new TII funding requests. As set out in our November 2011 policy decision letter, any further requests for funding of works planned to be undertaken before the end of the rollover year will be considered in the context of RIIO-T1.

However, we have refined our thinking as to how we will deal with capital expenditure allowances determined through the RIIO-T1 process for works undertaken prior to RIIO-T1. Specifically, we will take such capital expenditure allowances into account in calculating any future revenue adjustments, in the same way as for capital expenditure allowances determined under TII. In doing so, we will ensure that the revenue associated with such adjustments will reflect the financial parameters of the prevailing price control for the year in which the works are undertaken.

In February 2012, we published our decisions on the licence modifications to reflect the TPCR4 Rollover Final Proposals¹³. As a consequence of those licence modifications the revenue calculation¹⁴ for 2012-13, as set out in Special Condition D2/J2, already takes account of any revenue in relation to TII. This includes:

- an implicit revenue adjustment via the aggregate provisional TII allowance which was taken into account in setting the baseline allowance for each TO for the TPCR4 Final Proposals, and
- the explicit TII-specific revenue adjustment, via the $TOInc_t$ term, which for the rollover year is now specified in terms of the provisional revenue adjustment, referred to above, in respect of the application of the capital efficiency incentive to expenditure under TII to end 2010-11.

Given that licence modifications set out in this consultation include provisions for future revenue adjustments under the TII framework, we think it appropriate to reinstate the linkage between Special Condition D2/J2 and Special Condition D11/J12, as set out below.

Intent of the proposed licence modifications

The TII framework is set out in Special Condition D11 (with linkages to Special Condition D2) of NGET's transmission licence and Special Condition J12 (with linkages to Special Condition J2) of SPTL's and SHETL's transmission licences. Annex A to those special conditions specify details of the transmission investment projects for which the Authority has previously determined capital expenditure allowances via past TII funding decisions.

Appendix 1 of our November 2011 informal licence consultation set out an overview of the features of the TII framework and the key areas where we identified that licence changes would be required to reflect our November 2011 policy decision letter. Since then we have refined our thinking in a number of areas, as discussed above, and this is reflected in the proposed licence modifications set out in the accompanying Notices.

¹³ See the following documents available on the TPCR4 Rollover webpage (see footnote 4):

- Modification of the special conditions of National Grid Electricity Transmission plc's licence granted under Section 6 of the Electricity Act 1989 to implement the electricity transmission price control review (TPCR4) rollover, Feb'12;
- Modification of the special conditions of Scottish Power Transmission Limited's licence granted under section 6 of the electricity act 1989 to implement the electricity transmission price control review (TPCR4) rollover, Feb'12; and
- Modification of the special conditions of Scottish Hydro Electric Transmission Limited's licence granted under Section 6 of the Electricity Act 1989 to implement the electricity transmission price control review (TPCR4) rollover, Feb'12

¹⁴ The terms feeding into the revenue calculation are identified in Special Condition D2/J2. It currently includes a term $TOInc_t$ which forms part of the TII framework and has been amended as a consequence of the licence changes to reflect the TPCR4 Rollover Final Proposals.

Our proposed licence modifications to Special Condition D11/J12 seek to:

- Clarify that, in line with the approach set out in the November 2011 policy decision letter, capital expenditure allowances specified or adjusted in Special Condition D11/J12 (including those which are yet to be determined) do not feed directly into the revenue calculation for 2012-13¹⁵ but are taken into account in setting future revenue adjustments¹⁶ (in new paragraphs 2A-2D of Special Condition D11/J12). As such, the defined terms "average asset value" and "depreciation" are no longer used in the revenue calculation and are therefore removed from Annex A and the asset value adjusting event provisions (in paragraphs 3 and 10 of Special Condition D11/J12).
- Clarify that the annual reporting requirements (in paragraph 9 of Special Condition D11/J12) apply to all works for which capital expenditure allowances determined by the Authority are taken into account in the revenue adjustments specified in Special Condition D11/J12.
- Introduce the definition of "scheduled projects", being those projects for which relevant project details including pre-construction cost allowances and/or construction cost allowances are specified in Annex A for the relevant "funded pre-construction works" and/or "funded construction works" that are identified by the Authority as in scope of those allowances.
- Clarify that the application of the asset value adjusting event mechanism (in paragraph 3 of Special Condition D11/J12) and the output measures adjusting event mechanism (in paragraph 10 of Special Condition D11/J12) is limited to funded pre-construction works and/or funded construction works on scheduled projects.
- Amend the asset value adjusting event mechanism (in paragraph 3 of Special Condition D11/J12) and the output measures adjusting event mechanism (in paragraph 10 of Special Condition D11/J12) so that the revocation of a determination is made following consultation with the licensee¹⁷.
- Ensure that all provisions are extended to include the rollover year 2012-13 as appropriate with all monetary values expressed in 2009-10 prices using the indexation methodology set out in the TPCR4 Rollover Final Proposals.
- Amend Annex A¹⁸ to include project details to reflect the funding decisions reached in January 2012 and the extension to 2012-13 of the TII funding decisions reached in January 2010 and January 2011. The resulting cost allowances for each scheduled project are set out in Appendix 2 of this letter while the works in scope of those allowances are identified in Appendix 1.

¹⁵ With the licence changes to reflect the TPCR4 Final Proposals in effect, Special Condition D2/J2 specifies the value of TOinc_c for 2012-13 based on the provisional revenue adjustment due to the application of the capital efficiency incentive to expenditure under TII to end 2010/11.

¹⁶ Our proposed licence modifications set out in the attached Notices include changes to Special Condition D11/J12 to provide for future revenue adjustments to be made under RIIO-T1 in relation to: the true-up between allowances assumed for the purposes of setting revenue in a given year and the final allowances determined for that year; and, the application of the capex efficiency incentive.

¹⁷ Section 3A Utilities Act 2000 was recently introduced to confirm the Authority's status as the regulatory authority of Great Britain. As such, the Authority and its staff must not seek or take instructions from any party that might reasonably be seen as compromising the Authority's independence and impartiality. To that end, where TII licence conditions may previously have referred to making directions or other decisions with the "consent" of a licensee, we are now changing the wording to reflect that we will "consult" licensees.

¹⁸ We note that Annex A may be amended via a further section 11A consultation where appropriate to reflect any future funding decisions by the Authority.

- Remove the provisions (in deleted paragraphs 1-4 of Annex A to Special Condition D11/J12) through which new TII funding requests may be submitted.

Further, following on from our recent modification decisions on licence changes to reflect the TPCR4 Rollover Final Proposals, we are including proposed licence modifications to Special Condition D2/J2. In combination with related licence modifications to Special Condition D11/J12, these licence modifications seek to:

- Amend the definition of $TOInc_t$ in Special Condition D2/J2 so as to refer to Special Condition D11/J12 for its definition; and in turn define $TOInc_t$ within Special Condition D11/J12 based on the same formulation as set out in Special Condition D2/J2. Taken together, these two changes ensure that Special Condition D2/J2 refers to Special Condition D11/J12 for specification of all revenue adjustments in relation to the TII framework, both for the rollover year 2012-13 and for future years. This has no impact on revenues in 2012-13 given that the formulation of $TOInc_t$ is the same in both cases.

In the attached Notices:

- Schedule 1 sets out proposed revisions to Special Condition D2 of NGET's transmission licence, Special Condition J2 of SPTL's transmission licence, or Special Condition J2 of SHETL's transmission licence as applicable. Given the minimal nature of the proposed revisions to those conditions, they are shown in Schedule 1 by identifying the relevant paragraph to be amended and the specific existing text to be replaced by new text.
- Schedule 2 sets out proposed revisions to Special Condition D11 of NGET's transmission licence, Special Condition J12 of SPTL's transmission licence, or Special Condition J12 of SHETL's transmission licence as applicable. Given the extensive nature of the proposed revisions to those conditions, they are shown in Schedule 2 through tracked changes to the full licence condition, with existing drafting shown in black text and the tracked changes to this drafting highlighted in red text.

Way forward and next steps

Following closure of this consultation on **8 May 2012**, and consideration of any responses, the Authority will decide whether to proceed with the making of the modifications proposed in the Annexes to this section 11A consultation or to consult again and will explain the reasons why it has chosen to do so. The timing of this decision is subject to the nature and volume of responses received.

Consultation responses

Any representations on the proposed modifications set out in the attached Notices must be made in writing on or before **8 May 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 that 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 then please contact Cheryl Mundie (cheryl.mundie@ofgem.gov.uk).

Yours sincerely

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Appendix 1 – Scope of funded pre-construction works and funded construction works in line with TII funding decisions to date

This appendix identifies the transmission investment projects for which the Authority has determined funding allowance(s) for one or more components of works under the TII framework.

These projects are classed as **scheduled projects** within Annex A of Special Condition D11 or J12 as appropriate. They have project details specified in that Annex for funded pre-construction works and/or funded construction works (as applicable) in line with the TII decisions¹⁹ reached in January 2010²⁰, January 2011²¹ and/or January 2012²².

The **project details** for scheduled projects are:

- pre-construction²³ cost allowance and/or construction cost allowance for each year,
- key project milestones linked to the pre-construction cost allowance (where applicable), for each element of funded pre-construction works, and
- key project milestones and forecast output measures linked to the construction cost allowance (where applicable), for each element of funded construction works.

The project details specified in Annex A are based on information submitted by the licensees for the purposes of our assessment on which the relevant TII decision was based, and reflect the baseline assumptions underpinning that decision.

We summarise below the scope of funded pre-construction works and funded construction works for each scheduled project. Further details, including the objectives of each project and the components of works planned by the licensee at the time the relevant funding decisions were made, are given in the statutory consultation through which the project details were first added to Annex A²⁴.

¹⁹ In 2009, we made separate provision for funding of particular pre-construction activities for the financial year running from 1 April 2009 to 31 March 2010.

²⁰ "Enhanced Transmission Investment Incentives: Final Proposals" (Ref 04/10), Jan'10:

<http://www.ofgem.gov.uk/Networks/Trans/ElecTransPolicy/TAR/Pages/Traccrw.aspx>

²¹ "Transmission Investment Incentives: Decision on requests for funding from 2011/12", Jan'11

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=3&refer=Networks/Trans/ElecTransPolicy/CriticalInvestments/InvestmentIncentives>

²² Transmission Investment Incentives (TII): decision on requests for funding in 2012-13, Jan'12:

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=43&refer=Networks/Trans/ElecTransPolicy/CriticalInvestments/InvestmentIncentives>

²³ All pre-construction funding allowances set out in Annex A are specified from 1 April 2010 onwards. Some projects had existing pre-construction funding under the TPCR4 settlement and/or the provisions referred to in footnote 19.

²⁴ See:

- Appendix 1 of "Enhanced Transmission Investment Incentives: statutory consultation on licence changes to give effect to Final Proposals" (Ref 26/10), Feb'10:
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=13&refer=Networks/Trans/ElecTransPolicy/TAR>
- Appendix 3 of "Transmission Investment Incentives: statutory consultation on first stage of licence changes to give effect to decisions set out in decision letter of 21 January 2011" (Ref 22/11), Feb'11:
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=6&refer=Networks/Trans/ElecTransPolicy/CriticalInvestments/InvestmentIncentives>

NGET

*(a) Funding allowances specified in Annex A of Special Condition D11 based on funding decisions reached in **January 2010**:*

Anglo Scottish Incremental

- Pre-construction costs from 1 April 2010 to 31 March 2013.

Central Wales

- Pre-construction costs from 1 April 2010 to 31 March 2013.

East Anglia

- Pre-construction costs from 1 April 2010 to 31 March 2013.
- Construction costs from 1 April 2009 to 31 March 2013 for the following element(s) planned by the licensee as of January 2010:
 - Reconductoring of Walpole-Norwich-Bramford 400kV circuit, (planned construction period: 2010-11 – 2013-14),
 - New Bramford 400kV substation, (planned construction period: 2009-10 – 2016-17).

Eastern HVDC link

- Pre-construction costs from 1 April 2010 to 31 March 2013.

Humber

- Pre-construction costs from 1 April 2010 to 31 March 2013.

London

- Pre-construction costs from 1 April 2010 to 31 March 2013.

North Wales

- Pre-construction costs from 1 April 2010 to 31 March 2013.

South West

- Pre-construction costs from 1 April 2010 to 31 March 2013.

Western HVDC link

- Pre-construction costs from 1 April 2010 to 31 March 2013.
- Construction costs from 1 April 2009 to 31 March 2012²⁵ for the following element(s) planned by the licensee as of January 2010:
 - Deeside 400kV substation replacement, (planned construction period: 2010-11 – 2015-16).

*(b) Funding allowances specified in Annex A of Special Condition D11 based on funding decisions reached in **January 2011**:*

Anglo Scottish Incremental

- Construction costs from 1 April 2011 to 31 March 2013 for the following element(s) planned by the licensee as of January 2011 (planned construction period: 2011-12 – 2013-14):
 - a) Install shunt compensation at Harker 400kV substation (2 x 225MVar MSC), Stella West 400kV substation (2 x 225MVar MSC) and Hutton 400kV substation (1 x 225MVar MSC) and complete associated works.

Wylfa-Pembroke HVDC link

- Pre-construction costs from 1 April 2011 to 31 March 2013.

²⁵ Funding allowances for 2012-13 for this scheduled project are based on January 2012 funding decisions.

(c) *Funding allowances specified in Annex A of Special Condition D11 based on funding decisions reached in **January 2012**:*

Anglo Scottish Incremental

- Construction costs from 1 April 2012 to 31 March 2013 for the following element(s) planned by the licensee as of January 2012 (planned construction period: 2012-13 – 2013-14):
 - Reconductor Harker-Hutton-Quernmore Tee.

North Wales

- Construction costs from 1 April 2012 to 31 March 2013 for the following element(s) planned by the licensee as of January 2012 (planned construction period: 2012-13 – 2014-15):
 - Reconductor Trawsfynydd-Treuddyn Tee.

Western HVDC link

- Additional construction costs to 31 March 2013 for updated plans by the licensee as of January 2012 for the following element(s):
 - Deeside 400kV substation replacement, (planned construction period: 2010-11 – 2017-18).

SPTL

(a) *Funding allowances specified in Annex A of Special Condition J12 based on funding decisions reached in **January 2010**:*

Hunterston-Kintyre link

- Pre-construction costs from 1 April 2010 to 31 March 2013.

SPTL-NGET Interconnection

- Construction costs from 1 April 2009 to 31 March 2013 for the following element(s) planned by the licensee as of January 2010
 - Enabling works at Eccles, consisting of the installation of two new terminal towers of L12 specification to divert the Stella West overhead line entry, (planned construction period: 2010-11).

Western HVDC link

- Pre-construction costs from 1 April 2010 to 31 March 2013.

(b) *Funding allowances specified in Annex A of Special Condition J12 based on funding decisions reached in **January 2011**:*

SPTL-NGET Interconnection

- Construction costs from 1 April 2011 to 31 March 2013 for the following element(s) planned by the licensee as of January 2011 (planned construction period: 2011-12 – 2015-16):
 - a) Fixed Series Capacitors (FSC's):
 - (i) Install 1 x 120MVAR FSC on the Strathaven-Coalburn 400kV circuit at Strathaven
 - (ii) Install 1 x 120MVAR FSC on the Strathaven-Elvanfoot 400kV at Strathaven
 - (iii) Install 1 x 290MVAR FSC on the Elvanfoot-Gretna 400kV circuit at Gretna
 - (iv) Install 1 x 290MVAR FSC on the Moffat-Harker 400kV circuit at Moffat
 - (v) Install 2 x 290MVAR FSC on the Eccles-Stella West/Blyth 400kV circuits at Eccles
 - (vi) Complete associated overhead line, switchgear and protection and control modifications.

- b) Mechanically Switched (Shunt) Capacitor Damping Network (MSCDN):
 - (i) Install 1 x 225MVar MSCDN at Cockenzie 275kV Substation
 - (ii) Complete associated switchgear and protection and control modifications.

East-West upgrade

- Construction costs from 1 April 2011 to 31 March 2013 for the following element(s) planned by the licensee as of January 2011 (planned construction period: 2011-12 – 2015-16):
 - a) Install one new bay of AIS double busbar switchgear at Strathaven 400kV Substation
 - b) Establish a new five bay double busbar Wishaw 400kV GIS Substation, equipped with two 400/275kV transformers
 - c) Install one new bay of AIS switchgear at Smeaton 400kV
 - d) Install one new 'breaker and a half' bay of AIS switchgear at Kaimies 275kV Substation
 - e) Upgrade north side of XH / XJ routes (Strathaven-Smeaton, 74.7km) to 400kV operation
 - f) Install a second cable per phase on the Torness-Eccles No.1 and No.2 400kV circuits
 - g) Complete associated overhead line, switchgear and protection and control modifications.

*(c) Funding allowances specified in Annex A of Special Condition J12 based on funding decisions reached in **January 2012**:*

Western HVDC link

- Construction costs from 1 April 2012 to 31 March 2013 for the following element(s) planned by the licensee as of January 2012:
 - Hunterston East substation, (planned construction period: 2012-13 – 2016-17).

SHETL

*(a) Funding allowances specified in Annex A of Special Condition J12 based on funding decisions reached in **January 2010**:*

Beauly-Blackhillock-Kintore

- Construction costs from 1 April 2009 to 31 March 2013 for the following element(s) planned by the licensee as of January 2010:
 - Reconductoring Beauly-Blackhillock line, (planned construction period: 2009-10 – 2014-15)
 - Reconductoring Blackhillock-Kintore line, (planned construction period: 2011-12 – 2013-14).

Beauly-Dounreay

- Construction costs from 1 April 2009 to 31 March 2013 for the following element(s) planned by the licensee as of January 2010:
 - Reconductoring Beauly-Dounreay line and installation of quadrature boosters at grid supply points, (planned construction period: 2010-11 to 2013-14)
 - Dounreay substation reinforcement, (planned construction period 2010-11 to 2013-14).

Eastern HVDC link

- Pre-construction costs from 1 April 2010 to 31 March 2013.

Knocknagael

- Construction costs from 1 April 2009 to 31 March 2013 for the following element(s) planned by the licensee as of January 2010:
 - 275/132kV substation built to 400kV capability at Knocknagael, (planned construction period: 2009-10 – 2011-12).

*(b) Funding allowances specified in Annex A of Special Condition J12 based on funding decisions reached in **January 2011**:*

Beaully-Mossford

- Construction costs from 1 April 2011 to 31 March 2013 for the following element(s) planned by the licensee as of January 2011 (planned construction period: 2011-12 – 2013-14):
 - a) New Mossford switching station.

Appendix 2 – Funding allowances for funded pre-construction works and funded construction works in line with TII funding decisions to date²⁶

Table 1 – Funding allowances for funded pre-construction works

Scheduled project	Pre-construction cost allowances (2009-10 prices)				
	2009-10	2010-11	2011-12	2012-13	TOTAL
NGET	0.000	32.696	30.509	24.948	88.153
Anglo-Scottish incremental	0.000	4.923	4.430	1.005	10.357
Central Wales	0.000	1.181	1.772	2.009	4.963
East Anglia	0.000	5.759	3.150	3.014	11.923
Eastern HVDC link	0.000	0.738	1.582	0.964	3.285
Humber	0.000	1.969	3.642	7.032	12.644
London	0.000	2.954	1.969	0.000	4.922
North Wales	0.000	6.842	7.088	7.434	21.364
South West	0.000	2.658	2.067	3.014	7.739
Western HVDC link	0.000	5.672	4.332	0.000	10.003
Wylfa-Pembroke	0.000	0.000	0.476	0.476	0.953
SHETL	0.000	0.739	2.771	0.321	3.831
Eastern HVDC link	0.000	0.739	2.771	0.321	3.831
SPTL	0.000	5.715	5.118	0.000	10.833
Hunterston-Kintryre	0.000	0.296	0.197	0.000	0.492
Western HVDC link	0.000	5.419	4.922	0.000	10.341
Grand Total	0.000	39.150	38.398	25.269	102.818

Table 2 – Funding allowances for funded construction works

Scheduled project	Construction cost allowances (2009-10 prices)				
	2009-10	2010-11	2011-12	2012-13	TOTAL
NGET	2.093	39.413	115.887	152.743	310.137
Anglo-Scottish incremental	0.000	0.000	30.861	31.128	61.989
East Anglia	2.093	34.506	72.159	53.243	162.001
North Wales	0.000	0.000	0.000	2.646	2.646
Western HVDC link	0.000	4.907	12.867	65.726	83.500
SHETL	11.384	58.335	38.776	46.011	154.506
Beauly-Blackhillock-Kintore	5.293	12.849	2.934	11.277	32.353
Beauly-Dounreay	0.000	20.968	23.633	26.159	70.760
Beauly-Mossford	0.000	0.000	2.383	8.574	10.958
Knocknagael	6.091	24.519	9.825	0.000	40.435
SPTL	0.000	4.927	1.903	42.328	49.158
East-West upgrade	0.000	0.000	0.761	15.244	16.005
Western HVDC link	0.000	0.000	0.000	2.600	2.600
SPT-NGET interconnection	0.000	4.927	1.142	24.485	30.554
Grand Total	13.477	102.674	156.566	241.083	513.801

²⁶ These capital expenditure allowances reflect TII funding decisions reached in January 2010, January 2011 and January 2012. Some of the values may differ from corresponding totals in Tables 1 and 2 of Appendix 4 of the November 2011 policy decision letter, as a consequence of reflecting the January 2012 funding decisions.