

Electricity Act 1989
Sections 11A(1)(a) and 49A(1)(b)

**MODIFICATION OF SPECIAL CONDITIONS J2 AND J12 OF SCOTTISH HYDRO
ELECTRIC TRANSMISSION LTD'S ELECTRICITY TRANSMISSION LICENCE
GRANTED UNDER SECTION 6(1)(B) OF THE ELECTRICITY ACT 1989; AND**

**NOTICE OF REASONS FOR THE DECISION TO MODIFY THE LICENCE
UNDER SECTION 49A(1)(b) OF THE ELECTRICITY ACT 1989**

Whereas:

1. Scottish Hydro Electric Transmission Ltd ("SHTL") (company number SC213461) ("the Licence Holder") is the holder of an electricity transmission licence ("the Licence") granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 ("the Act").
2. In accordance with section 11A(2) of the Act the Gas and Electricity Markets Authority ("the Authority") gave notice on 5 April 2012 ("the Notice")¹ that it proposed to modify the following special conditions (together "the Conditions") of the Licence:
 - Special Condition J2 (Restriction of transmission charges: revenue from transmission owner services); and
 - Special Condition J12 (Adjustment to the Transmission Network Revenue Restriction due to Transmission Asset Owner Incentives).
3. In accordance with section 11A(2) of the Act, the Notice set out the proposed modifications and their effect, namely to extend the existing provisions for recovery of efficient pre-construction and/or construction costs associated with transmission reinforcement works such that they may apply to relevant works undertaken up to the end of the financial year 2012-13.
4. The reasons why the Authority proposed to make modifications were set out in the Authority's statutory consultation letter² ("the Consultation Letter") which accompanied the Notice³. The Authority specified 8 May 2012 as the date upon which representations with respect to the proposed modifications could be made.
5. The Authority separately gave notice⁴ in accordance with section 11A(2) of the Act on 5 April 2012 of proposed modifications to the electricity transmission licences held by National Grid Electricity Transmission plc ("NGET") and SP Transmission Ltd ("SPTL") respectively, for which the reasons were also those set out in the Consultation Letter and which had a similar effect to those set out in the Notice.
6. In accordance with section 11A(4)(b) of the Act, the Authority gave notice of the proposed modifications to the Secretary of State and has not received a direction not to make the modification before the relevant time period specified in the Notice.
7. Prior to the close of the consultation period in respect of the Notice, the Authority received two responses to the Consultation Letter, supporting the proposed

¹ "Notice under Section 11A(2) of The Electricity Act 1989 of proposed modification to the electricity transmission licence of Scottish Hydro Electric Transmission Ltd", 5 April 2012
http://www.ofgem.gov.uk/Networks/Trans/ElecTransPolicy/CriticalInvestments/InvestmentIncentives/Documents1/Apr12_SHTL_Notice.pdf

² "Transmission Investment Incentives: statutory consultation and Notices under Section 11A(2) of the Electricity Act 1989 on proposed modifications to electricity transmission licences", 5 April 2012
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=49&refer=Networks/Trans/ElecTransPolicy/CriticalInvestments/InvestmentIncentives>

³ The Notice was published as Annex 3 to the Consultation Letter.

⁴ These notices were published as Annex 1 and Annex 2 to the Consultation Letter.

modifications. One of the respondents suggested a minor drafting change to the proposed modifications to the electricity transmission licence held by NGET referred to in paragraph 5 above, which the Authority considers is also relevant to the proposed modifications set out in the Notice.

8. The Authority has carefully considered the responses to the Consultation Letter. The Authority has decided to amend the proposed modifications set out in the Notice in the manner set out in Schedule 1 to this document ("the Modification"). Schedule 1 to this Modification contains the Conditions (as amended by the Modification) that will, once 56 days have passed from the publication of this Modification, have effect on and from 1 April 2012. Schedule 2 to this Modification states the reasons for and effect of any differences between the proposed modifications set out in the Notice and the Conditions Schedule 1. These changes are for improved clarity of interpretation and do not alter the effect of the licence modification. Further details of the responses received and the Authority's consideration of the responses are set out in the Authority's decision letter⁵ ("the Decision Letter") which accompanies this Modification.

9. In accordance with section 49A(1)(b) of the Act, the reasons for making the licence modifications are: those set out in the Notice and Consultation Letter, namely to extend the Transmission Investment Incentives (TII) framework into 2012-13 and reflect capital expenditure allowances determined in line with TII funding decisions to date; and those set out in the Decision Letter and Schedule 2 of this Modification.

10. A printed copy of any document referred to in this Modification is available free of charge from the Ofgem Research and Information Centre, 9 Millbank, Westminster, SW1P 3GE (020 7901 7003 or library@ofgem.gov.uk) or from the Ofgem website (www.ofgem.gov.uk). The responses received are also available from the Ofgem Research and Information Centre or on the Ofgem website.

Now therefore:

In accordance with section 11A(1)(a) of the Act, the Authority hereby modifies the Conditions, in the manner set out in Schedule 1 of this Modification and for the reasons set out in the Notice and in Schedule 2 of this Modification, with effect on and from **1 April 2012**.

This document constitutes Notice pursuant to 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



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Andrew Burgess
Associate Partner, Transmission & Distribution Policy
Duly authorised on behalf of the Gas and Electricity Markets Authority
1 June 2012

⁵ "Transmission Investment Incentives (TII): decision under section 11A(1)(a) of the Electricity Act 1989 to make modifications to electricity transmission licences to reflect the extension of the TII framework into 2012-13", 1 June 2012
<http://www.ofgem.gov.uk/Networks/Trans/ElecTransPolicy/CriticalInvestments/InvestmentIncentives/Pages/InvestmentIncentives.aspx>

SCHEDULE 1

**MODIFICATION UNDER SECTION 11A(2) OF THE ELECTRICITY ACT
1989 OF THE ELECTRICITY TRANSMISSION LICENCE OF SCOTTISH
HYDRO ELECTRIC TRANSMISSION LTD IN RESPECT OF SPECIAL
CONDITION J2 AND SPECIAL CONDITION J12**

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 2012 and each subsequent relevant year t , allowed transmission owner revenue shall be calculated in accordance with the following formula:

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

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 2012 and each subsequent year be calculated as:

$$PR_t = RBT \times RPIF_t$$

where:

RBT shall take the value £85,600,000 (being in 2009/10 prices). This takes into account a provisional aggregate 2012/13 TII allowance of £101.8m (in 2009/10 prices); and

$RPIF_t$ is the price index adjustment for the formula year t , and in the relevant year commencing 1 April 2009 shall take the value of 1 and

in each subsequent relevant year shall be derived from the following formula:

$$RPIF_t = RPIA_{t-2} \times (1+GRPIF_{t-1}) \times (1+GRPIF_t)$$

where:

$$RPIA_t = RPI_t / RPI_{2009-10}$$

$$GRPIF_t = (0.75 \times GRPIF_c + 0.25 \times GRPIF_{c+1})$$

$$GRPIF_{t-1} = (0.75 \times GRPIF_{c-1} + 0.25 \times GRPIF_c)$$

where:

RPI_t means the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months from April to March in relevant year t.

$RPI_{2009-10}$ means the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months from April 2009 to March 2010.

$GRPIF_c$ means the Retail Prices Index Forecast Growth Rate for the calendar year c, where c is the calendar year 2012 and the expressions c-1 and c+1 should be interpreted accordingly. In each such case this information is taken from the November 2011 edition of the HM Treasury publication “Forecasts for the UK Economy”, where Retail Prices Index Forecast Growth Rate means:

(a) the growth rate for the calendar year c as defined as the “New forecasts (marked *) in table “M3: Medium term forecasts for CPI and RPI Inflation” set out in the HM Treasury publication “Forecasts for the UK Economy”, published in the November of each year; or

(b) if in any year the HM Treasury does not publish that growth rate, or changes the basis for calculating that growth rate, the Authority will, after consultation with the licensees, determine an appropriate index to be used.

- $TIRG_t$ 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, in respect of the application of the capital expenditure incentive regime as determined in accordance with paragraph 1 of special condition J7 (Capital Expenditure Incentive and Safety Net);
- LC_t means the revenue adjustment term, whether of a positive or of a negative value, made in the relevant year commencing 1 April 2013 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 2013 and for each relevant year after the relevant year commencing 1 April 2013 LC_t shall take the value zero;
- $TOInc_t$ means, for each relevant year t , the revenue adjustment in respect of Transmission Investment Incentives Projects which is defined in special condition J12 (Adjustment to the Transmission Network Revenue Restriction due to Transmission Asset Owner Incentives) and shall be calculated in accordance with that 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 2012 where AR_{t-1} shall be the regulated transmission revenue in the relevant year commencing 1 April 2011 as calculated in accordance with special condition J2 (Restriction of transmission charges) of this licence in the form in which it was in force at 31 March 2012;

TO_{t-1} means the allowed transmission owner revenue in the relevant year t-1;

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, and;

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 during the period of 1 April 2007 to 31 March 2012 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 21st 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

1. Not used.

1A. In this condition:

“Transmission Investment Incentives Project”	means a transmission investment project for which project-specific capital expenditure allowances are reflected in the provisions under this condition;
“scheduled project”	means a Transmission Investment Incentives Project for which project details are specified in Annex A to this condition in respect of funded pre-construction works and/or funded construction works;
“project details”	means one or more of the following particulars specified in Annex A to this condition in respect to a given scheduled project: <ul style="list-style-type: none">• Pre-construction cost allowances;• Construction cost allowances;• Key project milestones; and• Forecast output measures;
“funded pre-construction works”	means specific works planned or undertaken by the licensee in respect of a given scheduled project, being those works for which key project milestones are defined in respect of pre-construction works and which are identified by the Authority as in scope of pre-construction cost allowances;

“funded construction works”	means specific works planned or undertaken by the licensee in respect of a given scheduled project, being those works for which key project milestones and forecast output measures are defined in respect of construction works and which are identified by the Authority as in scope of construction cost allowances;
“relevant year”	means a financial year commencing on or after 1 April 2009;
“relevant year t”	means that relevant year for the purposes of which any calculation falls to be made; and
“further works”	means specific works planned or undertaken by the licensee on a given Transmission Investment Incentives Project for which capital expenditure allowances are determined after 1 April 2012 in respect of any relevant year prior to the relevant year commencing 1 April 2013.

1B. As it applies in the relevant year commencing 1 April 2012 and all subsequent relevant years, the purposes of this condition are to establish:

- (i) the basis of revenue adjustments, as set out in Part 1 of this condition, to the licensee’s allowed revenue in the relevant year commencing 1 April 2012 and each subsequent relevant year t, in so far as it relates to Transmission Investment Incentives Projects;

- (ii) the basis and procedure for determining and directing appropriate amendments to project details of a given scheduled project where an asset value adjusting event as defined in paragraph 3 of this condition has occurred;
- (iii) the information to be provided to the Authority, as set out in Part 2 of this condition, in relation to Transmission Investment Incentives Projects; and
- (iv) the basis and procedure for determining and directing appropriate amendments to forecast output measures of a given scheduled project where an output measures adjusting event as defined in paragraph 10 of this condition has occurred.

Part 1 – Basis of revenue adjustments

1C. (a) For the purposes of paragraph 3 of Special Condition J2 (Restriction of transmission charges: revenue from transmission owner services), for the relevant year commencing 1 April 2012, $TOInc_t$ shall be calculated in accordance with the following formula:

$$TOInc_t = CxIncTO_t \times RPIF_t$$

where:

$CxIncTO_t$ is the value of the provisional revenue adjustment term for the relevant year t (in 2009-10 prices) in respect of the application of the capital expenditure incentive regime on the difference between expenditure incurred and total capital expenditure allowance in respect of scheduled projects for the years 2009/10 and 2010/11 and shall take the value set out in the table below:

Relevant year t commencing on 1 April	2012
$CxIncTO_t$	£3,130,000

RPIF_t is the price index adjustment for the formula year t, and shall take the same meaning as is given to that term in the definition of the PR_t term in paragraph 3 of Special Condition J2 (Restriction of transmission charges: revenue from transmission owner services).

(b) Any revenue adjustments determined by the Authority under paragraph 2A or 2B of this condition on or after 1 April 2012 will not affect the licensee's allowed revenue for any relevant year prior to the relevant year commencing 1 April 2013.

2. Not used.

2A.(a) Further revenue adjustments may be determined by the Authority to reflect the difference between:

- (i) the total capital expenditure allowance in respect of Transmission Investment Incentives Projects that was assumed by the Authority for the purposes of setting the licensee's allowed revenue for a given relevant year n prior to the relevant year commencing 1 April 2013, and
- (ii) the total capital expenditure allowance in respect of Transmission Investment Incentives Projects, expressed in 2009/10 prices, determined by the Authority for the same relevant year n.

(b) The total capital expenditure allowance referred to in subparagraph (a)(ii) shall be derived from the sum of:

- (i) the initial allowance, expressed in 2009/10 prices, which shall take the value set out in the table below:

Total costs (£ million) 2009/10 prices	2009/10	2010/11	2011/12	2012/13
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Initial allowance	11.384	59.074	41.547	46.333
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(ii) the allowance adjustment, expressed in 2009/10 prices, which shall take the value of zero for each relevant year n unless directed otherwise by the Authority in writing on or before 31 March 2014.

(c) The total capital expenditure allowance referred to in subparagraph (a)(i) shall take the same value as the initial allowance as set out in the table in subparagraph (b)(i) for each of the relevant years n commencing 1 April 2009, 1 April 2010 and 1 April 2011 and shall take the value £101.8 million for the relevant year n commencing 1 April 2012.

(d) For the purposes of subparagraph (b)(ii), the Authority shall take into account:

(i) any capital expenditure allowances determined by the Authority in respect of further works, whether or not these are reflected in project details in Annex A;

(ii) any determinations under subparagraph 3(e) in respect of scheduled projects;
and

(iii) any overlap with funding provided to the licensee under any other revenue recovery arrangements.

(e) A revenue adjustment determined by the Authority under subparagraph (a) will be made on 1 April 2013 and may be made on 1 April in any subsequent relevant year following a direction under subparagraph (b)(ii).

2B.(a) The Authority may determine further revenue adjustments in relation to the application of the capital expenditure incentive regime on the difference between expenditure incurred by the licensee and total capital expenditure allowance determined by the Authority in respect of Transmission Investment Incentives Projects for the relevant years n prior to the relevant year commencing 1 April 2013.

(b) A revenue adjustment determined by the Authority under subparagraph (a) will be made on 1 April 2014 taking into account the provisional revenue adjustment referred to in subparagraph 1C(a) and may be made on 1 April in any relevant year following:

- (i) a direction under subparagraph 2A(b)(ii) of this condition; and/or
- (ii) completion by the Authority of its full efficiency review of expenditure incurred by the licensee over the relevant years 2009/10, 2010/11, 2011/12 and 2012/13 in respect of one or more Transmission Investment Incentives Projects.

2C. When determining revenue adjustments under paragraph 2A or 2B the Authority shall take full account of the substance and effect of any determinations under subparagraph 3(e) and subparagraph 10(e) of this condition and any project-specific provisions determined by the Authority for further works. The revenue adjustment determined by the Authority under subparagraph 2A(a) or subparagraph 2B(a) 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 the allowance adjustment directed by the Authority under subparagraph 2A(b)(ii) in respect of a given relevant year n had been known at the time of setting the licensee's allowed revenue for that relevant year n, and the same as if the revenue adjustment determined by the Authority under sub-paragraph 2B(a) had been taken into account by the Authority for the purposes of setting the licensee's allowed revenue for the relevant year commencing 1 April 2013.

2D. When the Authority determines a revenue adjustment under paragraph 2A or 2B the Authority may also determine an adjustment to the total asset value in respect of Transmission Investment Incentives Projects.

Asset value adjusting event

- 3. (a) For the purpose of this condition, 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 scheduled 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 total capital expenditure value for the scheduled project i for the relevant years 2011/12 to 2012/13;

- (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 carried out or expected to be carried out by the licensee during the relevant years 2011/12 to 2012/13 as a result of the terms and/or conditions of any statutory consent, approval or permission in respect of funded pre-construction works on the scheduled 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 funded construction works on the scheduled 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 scheduled 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, identifying the scheduled project i to which the

notice relates and including details of and reasons for the relevant additional pre-construction works and/or relevant amendment to the scope of construction works (as appropriate);

- (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 total capital expenditure for the scheduled project i for relevant years 2011/12 to 2012/13 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 adjustment proposed to the pre-construction cost allowance and/or construction cost allowance (as appropriate) in respect of the scheduled project i for the relevant years 2011/12 to 2012/13 as a consequence of that event and how this adjustment has been calculated;
- (vi) not used;
- (vii) not used;
- (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 relevant additional pre-construction works and/or relevant amendment to the scope of construction works (as appropriate) as identified in the notice 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 relevant additional pre-construction works and/or relevant amendment to the scope of construction works (as appropriate);

- (x) a statement on the impact of such an adjustment on the output measures associated with relevant scheduled 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 may seek any other analysis or information that the Authority considers relevant to the Authority's assessment of the event in order to reach a determination and shall take into account further information provided by the licensee for this purpose within one month of submission of the notice under subparagraph (c) (or such other date as the Authority notifies to the licensee for the purposes of this paragraph). Following consultation with other parties as it considers may be affected by its determination, the Authority shall then determine:
- (i) whether an asset value adjusting event has occurred in respect of the scheduled project i;
 - (ii) where the Authority determines that an asset value adjusting event has occurred in respect of the scheduled project i, whether the scheduled project i will remain economically efficient as a consequence of that asset value adjusting event;
 - (iii) not used; and
 - (iv) an adjustment to the pre-construction cost allowance and/or construction cost allowance (as appropriate) in respect of the scheduled project i for the relevant years 2011/12 to 2012/13.
- (f) Where the Authority determines under subparagraph (e) that an asset value adjusting event has occurred in respect of the scheduled project i and that the

scheduled project i will remain economically efficient as a consequence of that asset value adjusting event, the adjustments to the pre-construction cost allowance and/or construction cost allowance (as appropriate) in respect of the scheduled project i for the relevant years 2011/12 to 2012/13 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 been known at the time of setting the pre-construction cost allowance and/or construction cost allowance (as appropriate) for the scheduled project i for the relevant years 2011/12 to 2012/13;

- (g) Where the Authority makes a determination under subparagraph (e) that an asset value adjusting event has occurred the Authority may direct any necessary amendments to the project details specified in Annex A for the scheduled project i as result of that event to reflect the determination under subparagraph (e);
- (h) The Authority may revoke a determination made under subparagraph (e) following consultation with the licensee and may direct any necessary consequential amendments to Annex A;
- (i) Not used; 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.

4. Not used

5. Not used

6. Not used

7. Not used.

Part 2 - Information to be provided to the Authority in connection with Transmission Investment Incentives Projects

8. For each Transmission Investment Incentives Project i, the licensee shall provide the Authority with the following in respect of funded pre-construction works and/or funded construction works (as applicable) and any further works:
- (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 Incentives Project i complies with the key project milestones (as applicable) specified in Annex A to this condition for the relevant Transmission Investment Incentives Project i, and
 - (ii) a pre-construction expenditure report, setting out an itemised report of the pre-construction expenditure incurred for the Transmission Investment Incentives 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 pre-construction works are completed (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 Incentives Project i 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 Incentives Project i complies with the output measures and key project milestones (as applicable) specified in Annex A to this condition for the relevant Transmission Investment Incentives Project i, and

- (ii) a construction expenditure report setting out an itemised report of the construction expenditure incurred for the Transmission Investment Incentives 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 advisers, setting out the actual capability of the Transmission Investment Incentives Project i and the extent to which the Transmission Investment Incentives Project i complies with the output measures (as applicable) specified in Annex A to this condition for the relevant Transmission Investment Incentives Project i, 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 Incentives Project i 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.

Output measures adjusting event

10. (a) The output measures specified in Annex A to this condition in respect of funded construction works may be amended in accordance with this paragraph.

- (b) For the purpose of this condition, 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 scheduled project i.
- (c) Where the licensee considers, and can provide supporting evidence that, an output measures adjusting event has occurred in relation to the scheduled 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 advisers 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, identifying the scheduled project i to which the notice relates and including details of and reasons for the relevant amendment to the scope of construction works;
 - (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 may seek any other analysis or information that the Authority considers relevant to the Authority's assessment of the event in order to reach a determination and shall take into account further information provided by the licensee for this purpose within one month of submission of the notice under subparagraph (c) (or such other date as the Authority notifies to the licensee

for the purposes of this paragraph). Following consultation with other parties as it considers may be affected by its determination, the Authority shall then determine:

- (i) whether an output measures adjusting event has occurred in respect of the scheduled project i; and
 - (ii) where the Authority determines that an output measures adjusting event has occurred in respect of the scheduled project i, an output measures adjustment in respect of the scheduled project i.
- (f) Where the Authority makes a determination under subparagraph (e) that an output measures adjusting event has occurred the Authority may direct any necessary amendments to the output measures contained in Annex A for the relevant scheduled project i as a result of that event to reflect the determination under subparagraph (e).
- (g) The Authority may revoke a determination made under subparagraph (e) following consultation with the licensee and may direct any necessary consequential amendments to Annex A.

Annex A to Special Condition J12: Supplementary Provisions

1. Not used.
2. Not used.
3. Not used.
4. Not used

1A. This Annex A sets out project details for funded pre-construction works and funded construction works (as applicable) in respect of scheduled projects. The Authority may direct amendments to this Annex A in accordance with the provisions of paragraph 3 and paragraph 10 of this condition.

Beauly-Blackhillock-Kintore

For the purposes of Special Condition J12 project details are specified below for this scheduled project in respect of:

- Funded construction works.

1. Cost allowances

project costs (£ million) 2009/10 prices	2009/10	2010/11	2011/12	2012/13
Construction cost allowance	5.293	12.849	2.934	11.277

2. Key project milestones

Description of project milestones	Delivered by 1 April 2010	Delivered by 1 April 2011	Delivered by 1 April 2012	Delivered by 1 April 2013
For funded construction works	<p>Reconductoring Beauly - Blackhillock – provide evidence to show that:</p> <p>Reconductoring of the Beauly – Blackhillock section of line from tower 1 to tower 104 is underway.</p>	<p>Reconductoring Beauly - Blackhillock – provide evidence to show that:</p> <p>Reconductoring of the Beauly – Blackhillock line from towers 1 to 104 was completed in November 2010 as programmed.</p>	<p>Reconductoring Blackhillock - Kintore – provide evidence to show that:</p> <p>Reconductoring of the remaining Blackhillock – Kintore section of line is underway.</p>	<p>Reconductoring Blackhillock - Kintore – provide evidence to show that:</p> <p>Reconductoring of at least 100 spans, with exact programme subject to outage availability.</p>

3. Forecast output measures

Description of output measures for funded construction works	By 31 March 2012	By 31 March 2013	Upon completion (if not completed by 31 March 2013)
Reconductoring Beaully-Blackhillock line	Towers 1 to 104 of the Beaully-Blackhillock section of line are planned to be reconducted with 2x208mm ² GTACSR GAP sub-conductors per phase to increase the available capacity by 31 March 2012.	Not complete.	Towers 1 to 328 of the Beaully-Blackhillock section of line are planned to be reconducted with 2x208mm ² GTACSR GAP sub-conductors per phase to increase the available capacity by approximately 500MW by 31 March 2015.
Reconductoring Blackhillock-Kintore line	Not complete.	Not complete.	The Blackhillock - Kintore section of line are planned to be reconducted with 2x208mm ² GTACSR GAP sub-conductors per phase to increase the available capacity by 31 March 2014.

Beaully-Dounreay

For the purposes of Special Condition J12 project details are specified below for this scheduled project in respect of:

- Funded construction works.

1. Cost allowances

project costs (£ million) 2009/10 prices	2009/10	2010/11	2011/12	2012/13
Construction cost allowance	0.000	20.968	23.633	26.159

2. Key project milestones

Description of project milestones	Delivered by 1 April 2010	Delivered by 1 April 2011	Delivered by 1 April 2012	Delivered by 1 April 2013
For funded construction works		<p>Reconductoring and Quadrature boosters – provide evidence to show that:</p> <p>Civil works including access 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</p>	<p>Reconductoring and Quadrature boosters – provide evidence to show that:</p> <p>Tower strengthening and foundation reinforcement is substantially complete and that reconductoring was able to occur in the 2011 planned network outage.</p>	<p>Reconductoring and Quadrature boosters – provide evidence to show that:</p> <p>Tower strengthening and foundation reinforcement complete.</p> <p>Dounreay substation works – provide evidence to show that:</p> <p>Civil works and electrical</p>

		<p>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>Dounreay substation works – provide evidence to show that:</p> <p>Circuit breakers have been manufactured and that transformers are being manufactured.</p>	<p>Dounreay substation works – provide evidence to show that:</p> <p>Civil works and Electrical installation works have commenced from January 2011 as programmed.</p> <p>Transformers have been delivered and installed as programmed.</p>	<p>installation works complete.</p> <p>Transformers delivered and installed.</p>
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3. Forecast output measures

Description of output measures for funded construction works	By 31 March 2012	By 31 March 2013	Upon completion (if not completed by 31 March 2013)
Reconductoring Beaulieu-Dounreay line and installation of quadrature boosters at grid	Not complete.	A second 275kV conductor shall be installed on the existing Beaulieu-Dounreay line and two Quad Boosters	

supply points		are planned to be installed on the 132 kV circuits between Beaulieu and Shin Grid Supply Points by 31 March 2013. 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.	
Dounreay substation reinforcement	Not complete.	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.	

Eastern HVDC link

For the purposes of Special Condition J12 project details are specified below for this scheduled project in respect of:

- Funded pre-construction works.

1. Cost allowances

project costs (£ million) 2009/10 prices	2009/10	2010/11	2011/12	2012/13
Pre-construction cost allowance	0.000	0.739	2.771	0.321

2. Key project milestones

Description of project milestones	Delivered by 1 April 2010	Delivered by 1 April 2011	Delivered by 1 April 2012	Delivered by 1 April 2013
For funded pre-construction works		<p>For the HVDC link and the substation works at Peterhead – provide evidence to show that:</p> <p>Preliminary works including network designs, high level programmes and plans, potential routes, installation designs, land/environmental appraisals and single line diagrams are complete in preparation for planning</p>	<p>For the HVDC link and the substation works at Peterhead – provide evidence to show that:</p> <p>There has been progression of site/routing studies, detailed design solutions, consultations and impact assessments in</p>	<p>HVDC link – provide evidence to show that:</p> <p>Further survey work on the proposed route has been undertaken.</p> <p>Further progress in consenting the onshore works has been made.</p> <p>Peterhead substation works –</p>

		application.	preparation for planning application.	provide evidence to show that: Topographical and site geotechnical surveys undertaken for land based work.
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Knocknagael

For the purposes of Special Condition J12 project details are specified below for this scheduled project in respect of:

- Funded construction works.

1. Cost allowances

project costs (£ million) 2009/10 prices	2009/10	2010/11	2011/12	2012/13
Construction cost allowance	6.091	24.519	9.825	0.000

2. Key project milestones

Description of project milestones	Delivered by 1 April 2010	Delivered by 1 April 2011	Delivered by 1 April 2012	Delivered by 1 April 2013
For funded construction works	<p>Knocknagael 275/132kV substation – provide evidence to show that:</p> <p>Environmental 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</p>	<p>Knocknagael 275/132kV substation – provide evidence to show that:</p> <p>Civil works – site establishment (welfare facilities and compound strip) are complete.</p> <p>Civil works – Earthworks, the 132kV compound, the 275kV</p>	<p>Knocknagael 275/132kV substation – provide evidence to show that:</p> <p>Underground cabling works and Electrical Installation works have completed construction.</p> <p>Commissioning of both the 275kV and 132kV compounds has been achieved.</p>	

	<p>– welfare facilities and compound strip are progressing towards completion.</p> <p>Show that overhead line works have begun construction.</p>	<p>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>Overhead line works have completed construction.</p>	
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3. Forecast output measures

Description of output measures for funded construction works	By 31 March 2012	By 31 March 2013	Upon completion (if not completed by 31 March 2013)
275/132kV substation built to 400kV capability at Knocknagael	A 275/132kV substation built to 400kV specification is planned to be		

	established releasing 275kV capacity to the NW region by 31 March 2012.		
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Beauly-Mossford

For the purposes of Special Condition J12 project details are specified below for this scheduled project in respect of:

- Funded construction works.

1. Cost allowances

project costs (£ million) 2009/10 prices	2009/10	2010/11	2011/12	2012/13
Construction cost allowance	0.000	0.000	2.383	8.574

2. Key project milestones

Description of project milestones	Delivered by 1 April 2010	Delivered by 1 April 2011	Delivered by 1 April 2012	Delivered by 1 April 2013
For funded construction works			New Mossford switching station – provide evidence to show that: All consents granted; Land purchased; Main contracts awarded.	New Mossford switching station – provide evidence to show that: Civil works complete. Electrical installation underway.

3. Forecast output measures

Description of output measures for funded	By 31 March 2012	By 31 March 2013	Upon completion (if not completed by 31 March 2013)

construction works			
New Mossford switching station	Not complete.	Not complete.	By 2013: New 132kV switching station, including provision of double 132kV busbars and associated 132kV switchgear.

SCHEDULE 2

Table of the reasons and the effect of the differences between the Conditions in Schedule 1 and the proposed modifications set out in the Notice

Ref	Condition and paragraph	Licence term	Difference and Reason	Effect
1	SC J2 para 3	TO _t	Duplication of previous formula for TO _t removed to correct typographical error.	Improved clarity of interpretation.
2	SC J2 para 3	TOInc _t	Formatting amended for consistency with surrounding paragraphs. Semi-colon added at end of definition to give clear separation from subsequent definition.	Improved clarity of interpretation.
3	SC J2 para 4	N/A	Formatting amended for consistency with surrounding paragraphs.	Improved clarity of interpretation.
3	SC J12 para 1C(a)	RPIF _t	Words added to clarify that the term "shall take the same meaning as [is] given [to that term] in the definition of the PR _t term in paragraph 3 of Special Condition J2 (Restriction of transmission charges: revenue from transmission owner services)".	Improved clarity of interpretation.