

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

MODIFICATION OF SPECIAL CONDITIONS J2 AND J12 OF SP 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. SP Transmission Ltd ("SPTL") (company number SC189126) ("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 Scottish Hydro-Electric Transmission Ltd ("SHETL") 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 modifications. One of the respondents suggested a minor drafting change to the

¹ "Notice under Section 11A(2) of The Electricity Act 1989 of proposed modification to the electricity transmission licence of SP Transmission Ltd", 5 April 2012
http://www.ofgem.gov.uk/Networks/Trans/ElecTransPolicy/CriticalInvestments/InvestmentIncentives/Documents1/Apr12_SPTL_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 2 to the Consultation Letter.

⁴ These notices were published as Annex 1 and Annex 3 to the Consultation Letter.

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 in 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 SP
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 £177,000,000 (being in 2009/10 prices). This takes into account a provisional aggregate 2012/13 TII allowance of £84.6m (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; For the avoidance of doubt, the allowance for expenditure of £3.7m for 2012/13 in this category (in 2009/10) prices referred to in the document 'TPCR4 Rollover: Final Proposals' (162/11) is not taken into account in the derivation of the value of the RBT term above
- $TOInc_t$ 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: revenue from transmission owner services) 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 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
$CxIncTO_t$	£805,000

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	0.000	10.641	7.022	42.328
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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 £84.6 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 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 a 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.

Hunterston-Kintyre 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	0.296	0.197	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 pre-construction works		Works at Hunterston – provide evidence to show: Consents process: Consent-related work is in progress.	Works at Hunterston – provide evidence to show: Electrical, Civil and cable route works: that the tendering process has completed and that contracts have been awarded.	

SPTL-NGET Interconnection

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	4.927	1.142	24.485

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>Eccles enabling works – provide evidence to show that:</p> <p>Two new terminal towers have been installed between existing towers 192A and 193 to facilitate the diversion of the Stella West overhead line entry.</p>	<p>Series and shunt compensation works – provide evidence to show that:</p> <p>All consents granted for Gretna, Moffat, Strathaven, and Eccles;</p> <p>ITTs for all civil works, main substation plant and OHL deviations at</p>	<p>Series and shunt compensation works – provide evidence to show that:</p> <p>All detailed design works completed.</p> <p>ITT for series capacitor issued.</p>

			<p>Gretna, Moffat, Strathaven, and Eccles;</p> <p>Place contracts for all civil works, substation works and OHL deviations at Gretna, Moffat, Strathaven, and Eccles;</p> <p>Complete OHL deviations at Eccles.</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)
Enabling works at Eccles	Two new terminal towers of L12 specification will have been installed between existing towers 192A and 193 at Eccles substation site to divert the Stella West (ZA route) overhead line entry. The existing tower ZA192 will have been removed from the site.		

Series and shunt compensation works	Not complete.	Not complete.	By August 2015: Reduce the impedance of the Strathaven-Harker 400kV OHL by approximately 35%; Reduce the impedance of the Eccles-Stella West 400kV OHL by approximately 35%.
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Western 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
- Funded 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	5.419	4.922	0.000
Construction cost allowance	0.000	0.000	0.000	2.600

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>HVDC link – provide evidence to show that:</p> <p>Network analysis studies and resulting decision on converter, cable route and landing points have been completed.</p> <p>Physical layout drawings and</p>	<p>HVDC link – provide evidence to show that:</p> <p>Pre-contract design is complete.</p> <p>Contracts are drawn up over the year with suppliers by 1 April 2012.</p> <p>Converter station land acquisition or</p>	

		<p>final decision of substation locations have been completed.</p> <p>Equipment standards and specifications for design choice have been completed.</p> <p>Sea-bed survey is complete.</p> <p>Consultations and environmental assessments are progressing in accordance with program.</p> <p>Optimised tender design for firm price has been completed.</p>	<p>options complete.</p> <p>Pre-application consultation and environmental assessment works complete.</p> <p>Planning application submission to appropriate bodies complete.</p>	
For funded construction works				<p>Hunterston East 400kV substation – provide evidence to show that:</p> <p>Design Works Complete.</p> <p>GIS Switchgear Contract placed.</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)
Hunterston East 400kV substation		Not complete.	Commission Hunterston East 400kV substation, comprising eight bays of GIS, by 31st Dec 2015, in accordance with the delivery programme for the wider Western HVDC Link project.

East-West upgrade

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	0.761	15.244

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>East-West upgrade – provide evidence to show that:</p> <p>Consents granted for XH route OHL deviation;</p> <p>ITTs issued for all civil works, main substation plant, and OHL deviations at Smeaton, Currie, Kaimes;</p>	<p>East-West upgrade – provide evidence to show that:</p> <p>ITTs issued for all civil works, main substation plant, and OHL deviations at Smeaton, Currie, Kaimes;</p> <p>Contracts placed for all civil works,</p>

			<p>ITTs issued for 400kV cable and cable installation, and 400kV switchgear at Torness;</p> <p>ITTs issued for XH Route OHL deviation / reinsulation;</p> <p>Place contracts for all civil works, main substation plant, and relevant OHL deviations at Smeaton, Currie, Kaimes;</p> <p>Place contracts for 400kV cable and cable installation, and 400kV switchgear at Torness;</p> <p>Place contracts for XH Route OHL deviation / reinsulation.</p>	<p>main substation plant, and relevant OHL deviations at Smeaton, Currie, Kaimes.</p>
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3. Forecast output measures

Description of output measures	By 31 March 2012	By 31 March 2013	Upon completion (if not completed by 31
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for funded construction works			March 2013)
East-West upgrade	Not complete.	Not complete.	<p>By August 2015:</p> <p>Uprate the Strathaven-Wishaw-Kaimes-Smeaton 275kV circuits to 400kV operation;</p> <p>Install a second cable per phase on the Torness-Eccles No.1 and No.2 400kV circuit.</p>

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	TOInc _t	Semi-colon added at end of definition to give clear separation from subsequent definition.	Improved clarity of interpretation.
2	SC J2 para 4	N/A	Missing word "against" added to correct typographical error.	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.