



Making a positive difference
for energy consumers

John Greasley
Performance Manager
Electricity Transmission
National Grid Electricity Transmission plc
National Grid House
Warwick Technology Park
Gallows Hill, Warwick
CV34 6DA

Direct Dial: 020 7901 7223
Email: Kersti.Berge@ofgem.gov.uk

Date: 27 March 2014

Dear John

Transmission Investment Incentives Allowance Adjustments – extension of deadline to determine revised values

Summary

We are writing to notify you of the deadline extension for the Authority to determine revised values for Transmission Investment Incentives (TII) Allowance Adjustments and our reasons for doing so. The original deadline of 31 March 2014 will be extended by two years to 31 March 2016. This notification is under Special Condition (SpC) 6B, Paragraph 11(a) of National Grid Electricity Transmission plc (National Grid's) electricity transmission licence.

Background

We introduced the TII framework in April 2010. This was to provide interim funding for investment projects that did not have funding under Transmission Price Control Review 4 (TPCR4), the price control at the time. The TII framework was intended to operate until TPCR4 expired, on 31 March 2012.

On 4 October 2010, we announced the new RIIO¹ model for network regulation. We moved the start of the new price control to 1 April 2013 to allow more time to implement the model. A one-year TPCR4 rollover covered the period between the expiry of TPCR4 and the start of the new price control (RIIO-T1). The TII framework was also extended for one year to remain aligned with the extended TPCR4 price control period.

Additional 2012-13 TII funding

In June 2013, National Grid submitted its 2012-13 TII annual report, which included a request for additional funding for four projects. The TII framework is set out in SpC 6B of National Grid's electricity transmission licence. It allows for retrospective funding under

¹ Revenue = Incentives + Innovation + Outputs

Part E through the Further Works mechanism for Baseline Wider Works (BWW) and Strategic Wider Works (SWW), subject to a number of conditions².

We have reviewed National Grid's request for additional 2012-13 funding and identified two projects that are eligible for consideration under the Further Works mechanism. The first is the Anglo Scottish Incremental project, which will increase capacity across the transmission boundary between Scotland and England. We will be issuing a consultation shortly seeking views on our proposal to approve additional funding of £8.4 million³ for the project.

The second project is the proposed Hinkley Seabank reinforcement, which will enable the connection of new electricity generation in the south west of England. National Grid identified this project in its business plan for RIIO-T1. We said in the RIIO-T1 final proposals for National Grid that the Hinkley Seabank proposal would be a SWW project. Therefore, it needs to be considered under the SWW arrangements we introduced as part of RIIO-T1 to assess large transmission projects, when more information becomes available. National Grid has indicated it is likely to submit a needs case for our consideration in 2014. If we approve the project, National Grid can bring the request for 2012-13 funding forward again for consideration under the Further Works mechanism. If this is the case we will issue a consultation seeking views on this funding.

Under SpC 6B Paragraph 11, we may only determine revised values for TII Allowance Adjustments until 31 March 2014, unless we notify a later date before then. To be able to consider National Grid's requests for additional 2012-13 funding for the Anglo Scottish Incremental and Hinkley Seabank projects, we need to extend the deadline to a later date than 31 March 2014. This letter provides notification of such an extension.

We have considered the impact of extending the deadline and note that, in line with our current understanding, it will not lead to an increase in the number of applications for additional funding. The extended deadline for the Further Works mechanism, as defined in National Grid's licence, gives us the option to approve additional funding for the Anglo Scottish Incremental and Hinkley Seabank projects, if we assess a request and determine that the funding was efficiently incurred. We also note that this notification relates only to National Grid and has no impact on the Scottish transmission owners.

Our notification

For the reasons set out above, and in accordance with SpC 6B.11, we have decided to extend the deadline by which we can determine revised values for TII Allowance Adjustments to **31 March 2016**.

Yours sincerely,



Kersti Berge
Partner, SG&G Transmission
For and on behalf of the Authority

² BWW and SWW are outputs National Grid will deliver over the price control, RIIO-T1, from 1 April 2013 to 31 March 2021. These are defined in National Grid's electricity transmission licence.

³ In 2010-11 prices