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Dear Stakeholder,

### **Minded to position on additional 2012-13 funding for National Grid Electricity Transmission plc – your views requested**

National Grid Electricity Transmission plc (National Grid) is undertaking a number of projects under the Transmission Investment Incentives (TII)<sup>1</sup> framework to ensure that capacity is sufficient to meet future energy needs.

National Grid is seeking additional 2012-13 funding of £29.9 million<sup>2</sup> for four projects. Our initial view is that only the Anglo-Scottish Incremental project (Anglo-Scottish project), which will increase capacity across the transmission boundary between Scotland and England, is eligible for consideration at this time. National Grid is seeking construction funding of £8.4 million for this project. We<sup>3</sup> have reviewed National Grid's request and are minded to approve it under the Further Works mechanism.

We would like to hear your views on our minded to position on National Grid's request for additional 2012-13 funding. This consultation will close on 30 May 2014.

### **Background**

We introduced the TII framework in April 2010. This was to provide interim funding for investment projects that did not have funding under the price control at the time – Transmission Price Control Review 4 (TPCR4).

Under the TII framework, the Transmission Operators (TOs) received funding for efficient pre-construction costs for all projects identified in TII Final Proposals<sup>4</sup>. The TOs also received construction funding for projects planned to start before 2010-11<sup>5</sup>. Under the TII framework, we planned to review TII funding requests annually for works beginning the following year. The framework was intended to operate until TPCR4 expired on 31 March 2012.

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<sup>1</sup>TII website: <https://www.ofgem.gov.uk/electricity/transmission-networks/critical-investments/transmission-investment-incentives>

<sup>2</sup> Unless otherwise indicated, all figures are in 2009-10 prices.

<sup>3</sup> The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of Gas and Electricity Markets.

<sup>4</sup> TII Final Proposals (TII FP): <https://www.ofgem.gov.uk/publications-and-updates/transmission-access-review-%E2%80%93-enhanced-transmission-investment-incentives-final-proposals>

<sup>5</sup> Details of the cost estimates for all projects put forward by the TOs is provided in Appendix 3 of the TII FP.

On 4 October 2010, we announced the new Revenue = Incentives + Innovation + Outputs (RIIO) model for network regulation. We delayed the start of the new price control by one year, giving us time to implement the model. A one-year TPCR4 rollover<sup>6</sup> covered the gap between the expiry of TPCR4 and the new RIIO-T1 price control, ie the period 2012-13. The TII framework was also extended for one year to remain aligned with the TPCR4 period<sup>7</sup>.

As part of its March 2012 RIIO-T1 business plan submission, National Grid requested approval for additional 2012-13 TII funding of £29.9 million. In our RIIO Initial Proposals we noted National Grid's request, indicating we did not propose any changes to the amount requested, because the request was supported by expenditure information for outputs we anticipated verifying for Final Proposals<sup>8</sup>. Due to an oversight, we did not verify National Grid's request in Final Proposals and the RIIO-T1 allowances do not include any additional 2012-13 funding for TII projects.

Special Condition (SpC) 6B of National Grid's electricity transmission licence, introduced as part of RIIO-T1, contains the Further Works mechanism, which allows us to retrospectively determine additional allowances for 2009-10 to 2012-13 for TII projects. This mechanism only applies to Baseline Wider Works (BWW) or Strategic Wider Works (SWW) that are not funded for pre-construction or construction works<sup>9</sup>.

In June 2013, National Grid submitted its 2012-13 TII annual report. As part of this report, National Grid resubmitted its request for retrospective additional 2012-13 funding for the Hinkley Seabank, London, Eastern High Voltage Direct Current (HVDC) and Anglo-Scottish projects.

### **Our initial view on National Grid's request for 2012-13 TII funding**

We have reviewed National Grid's request and our view is that three projects are not eligible for consideration at this time. This is because:

- Hinkley Seabank requires approval under the SWW framework and should be considered in this context. If the project is approved, National Grid can bring this request for 2012-13 construction funding forward again.
- The London project funding request relates to the Hackney – Tottenham – Waltham Cross upgrade. This is an Incremental Wider Works project and is not eligible for consideration under the Further Works mechanism.
- Eastern HVDC is also an SWW project, which has 2012-13 pre-construction funding already approved. It is therefore not eligible for additional pre-construction funding under the TII Further Works mechanism.

National Grid has also requested retrospective funding for the Anglo-Scottish project to bring forward construction works on series compensation at the Hutton substation. The Anglo-Scottish project is a BWW project and does not already have construction funding for series compensation works. Therefore, this project is eligible for consideration under the Further Works mechanism. We are minded to approve National Grid's request for retrospective funding of £8.4 million and have set out our reasoning below.

We have reviewed National Grid's request for additional funding for the Anglo-Scottish project and note that construction works have been brought forward to coincide with other works at the Hutton substation to realise savings. In addition, bringing forward construction will enable National Grid to take advantage of already planned outages and

<sup>6</sup> TPCR4RO Final Proposals: <https://www.ofgem.gov.uk/publications-and-updates/transmission-price-control-review-4-tpcr4-rollover-final-proposals>

<sup>7</sup> TII extension decision: <https://www.ofgem.gov.uk/publications-and-updates/transmission-investment-incentives-tii-decisions-extending-policy-framework-2012-13>

<sup>8</sup> RIIO-T1 Final Proposals: <https://www.ofgem.gov.uk/publications-and-updates/riio-t1-final-proposals-national-grid-electricity-transmission-and-national-grid-gas-%E2%80%93-overview>

<sup>9</sup> The allowed expenditure for BWW and SWW projects from 2013-14 onwards is set out in SpC 6I

avoid any further outages at a later date . Therefore, we consider that National Grid's approach to 2012-13 works at the Hutton substation is efficient.

We indicated in RIIO-T1 Initial Proposals that we intended to approve National Grid's request for additional TII funding submitted in its business plan. The funding was not included in our RIIO-T1 Final Proposals, but this did not reflect a change in our view of the proposed works. We consider it appropriate to provide National Grid with 2012-13 TII funding for the Anglo-Scottish project through the Further Works mechanism.

The remaining funding for the project is included in National Grid's baseline capital expenditure under RIIO-T1 and is expected to deliver additional transfer capacity of 1,000MW across the boundary between England and Scotland. We believe National Grid's request for additional 2012-13 funding of £8.4 million represents a reasonable part of the full project cost of £175.8 million.

We note National Grid did not spend the full amount requested for the series compensation works at the Hutton substation in 2012-13. However, National Grid has advised that this is a deferral, rather than an underspend and the works will be carried out beyond 2012-13 where further expenditure will be incurred.

Subject to consideration of the responses to this consultation, we will issue a decision and, if required, consult on changes to Appendix 1 to SpC 6B to add details in respect of additional Further Works. Under SpC 6B Paragraph 11, we may only determine revised values under the Further Works mechanism until 31 March 2014, unless we identify a later date before then. Therefore, to be able to approve National Grid's request for additional funding of £8.4 million and consider any future requests under the Further Works mechanism, as appropriate, we have extended the deadline to 31 March 2016<sup>10</sup>.

#### Questions:

- **Do you agree with our minded to position to modify National Grid's 2012-13 allowances by providing funding under the Further Works mechanism?**
- **Do you agree with our proposal to provide National Grid with £8.4 million for series compensation work at the Hutton substation?**

We welcome your views and responses. All responses will be published on our website [www.ofgem.gov.uk](http://www.ofgem.gov.uk), unless marked confidential. If you would like your response to be kept confidential, please indicate so on your response, and give reasons.

Please respond in writing **by 30 May 2014** to [Vanja.Munerati@ofgem.gov.uk](mailto:Vanja.Munerati@ofgem.gov.uk), or contact Vanja with any questions regarding this letter via email or on 020 7901 7472.

Yours sincerely,



**Kersti Berge**  
**Partner, Electricity Transmission**

<sup>10</sup> <https://www.ofgem.gov.uk/publications-and-updates/extension-deadline-determine-revised-tii-values-national-grid-electricity-transmission-pic>