

Transmission licensees,
distribution licensees, generators,
suppliers, consumer groups and
other interested parties

Direct Dial: 020 7901 7223
Email: kersti.berge@ofgem.gov.uk

Date: 18 July 2014

Dear Colleague

Decision on the Determination under Special Condition 6B to increase National Grid Electricity Transmission plc's 2012-13 allowances

National Grid Electricity Transmission plc (National Grid) has requested additional 2012-13 funding for four Transmission Investment Incentives (TII) projects. We have reviewed National Grid's request and think that only the Anglo-Scottish Incremental project (the Anglo-Scottish project) is eligible for more funding at the moment.

On 2 April 2014 we consulted on our minded to position to approve additional 2012-13 funding of £8.4 million¹ for the Anglo-Scottish project². There was one response, which supported our position. We published it on our website.

We have considered all relevant factors, including the response to our consultation. We now confirm our position and determine that National Grid's 2012-13 allowances should be increased by £8.4 million in accordance with paragraph 32 of Special Condition 6B.

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). The framework was intended to operate until TPCR4 expired on 31 March 2012.

On 4 October 2010, we announced the new Revenue = Incentives + Innovation + Outputs (RIIO) model for network regulation. A one-year TPCR4 rollover³ 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 period⁴.

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

¹ All values in this document are in 2009-10 prices, unless otherwise stated.

² Anglo-Scottish project consultation: <https://www.ofgem.gov.uk/ofgem-publications/87026/anglo-scottishincrementalconsultationsigned.pdf>

³ TPCR4RO Final Proposals: <https://www.ofgem.gov.uk/publications-and-updates/transmission-price-control-review-4-tpcr4-rollover-final-proposals>

⁴ TII extension decision: <https://www.ofgem.gov.uk/publications-and-updates/transmission-investment-incentives-tii-decisions-extending-policy-framework-2012-13>

it asked for, because the request was supported by expenditure information for outputs we anticipated verifying for Final Proposals⁵. 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. This did not reflect a change in our view of the proposed works.

Special Condition (SpC) 6B of National Grid's RIIO-T1 licence contains the Further Works mechanism, which allows us to retrospectively determine additional 2009-10 to 2012-13 allowances for TII projects. This mechanism only applies to Baseline Wider Works (BWW) or Strategic Wider Works that are not funded for pre-construction or construction works⁶.

In June 2013, National Grid submitted its 2012-13 TII annual report. As part of this, it resubmitted its request for additional 2012-13 funding for four projects, including the Anglo-Scottish project.

Our minded to position

We reviewed National Grid's request and considered that only additional funding of £8.4 million for the Anglo-Scottish project was eligible under the Further Works mechanism at this time. This is because it is a BWW project and does not already have construction funding for series compensation works at the Hutton substation.

The series compensation construction works were brought forward to coincide with other works at the Hutton substation to realise efficiency savings. This also allowed National Grid to take advantage of already planned outages and avoid further outages later on. We considered that National Grid's approach to 2012-13 works at the Hutton substation were efficient.

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 considered that 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.

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

April 2014 consultation

On 2 April 2014, we published a consultation setting out our minded to position to approve additional funding of £8.4 million for the Anglo-Scottish project under the Further Works mechanism. The only response we received agreed with our minded to position decision to increase National Grid's 2012-13 allowances by £8.4 million under the Further Works mechanism.

Our Determination

For the reasons above, and in accordance with SpC 6B.32, we confirm our minded to position to increase National Grid's 2012-13 allowance by £8.4 million for the Anglo-Scottish project.

⁵ 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>

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

Next Steps

To implement this decision, we are issuing a notice as required by SC6B.34 and 6B.35. We are also issuing a statutory consultation on the proposed change to National Grid's licence, in accordance with section 11A of the Electricity Act 1989.

If you want to respond to the statutory consultation, send it by **18 August 2014** to Bethany Hanna at: bethany.hanna@ofgem.gov.uk.

Yours faithfully,



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