

Transmission licensees,
generators, suppliers, consumer
groups and any other party who
has an interest in the
transmission arrangements

Date: 18 July 2014

Dear Colleague

Notice and statutory consultation on proposed licence modifications for the Anglo Scottish Incremental project under the Further Works mechanism under Section 11A(2) of the Electricity Act 1989 and Special Condition 6B.35

This letter consults on the proposed licence changes to National Grid Electricity Transmission plc's (National Grid) electricity transmission licence. This follows our¹ determination of 18 July 2014 to increase National Grid's 2012-13 allowances by £8.4 million² for the Anglo Scottish Incremental project (Anglo Scottish project). Our determination will not take effect unless we undertake this statutory consultation along the lines set out in paragraph 35 of special licence condition 6B (SC6B.35) of National Grid's licence.

We therefore propose to modify Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period) of National Grid's licence. The change inserts the approved capital expenditure allowances under the Further Works mechanism into Table 4 in Appendix 1 to the condition.

A Notice under section 11A(2) of the Electricity Act 1989 and SC6B.35(a) as well as the proposed modification to the Condition mentioned above, are being published alongside this letter.

Further details of the project and our determination are set out in our 2 April 2014 consultation letter³ on the Anglo-Scottish project and related decision letter of 18 July 2014 are summarised below.

We would like to hear your views on our proposed changes to National Grid's licence to reflect our 16 July determination. This consultation will close on 18 August 2014.

Background

We introduced the Transmission Investment Incentives (TII) framework in April 2010 to provide interim funding for investment projects that did not have funding under Transmission Price Control Review 4 (TPCR4). Under the TII framework, the transmission owners (TOs) received funding for efficient pre-construction costs for all projects identified in TII Final Proposals. The TOs also received construction funding for projects planned to

¹ The terms "Authority", "Ofgem", "we" and "us" are used interchangeably in this document

² All amounts are in 2009-10 prices, unless stated otherwise

³ Consultation letter: <https://www.ofgem.gov.uk/ofgem-publications/87026/anglo-scottishincrementalconsultationsigned.pdf>

start before 2010-11. Under the TII framework, we reviewed funding requests annually for works beginning the following year.

On 4 October 2014, we announced the new Revenue = Incentives + Innovation + Outputs (RIIO) model for network regulation. National Grid's RIIO-T1 licence includes Special Condition 6B, which 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 (SWW) that are not funded pre-construction or construction works⁴.

In June 2013, National Grid submitted its 2012-13 TII annual report. As part of this report, National Grid requested additional 2012-13 funding for four projects.

Proposed licence modification to reflect our decision on additional funding under the Further Works mechanism

We have reviewed National Grid's request and our view is that only the Anglo Scottish project is eligible for additional TII funding under the Further Works mechanism at this time.

We issued a consultation on our position on 2 April 2014. We only received one response, which supported our proposal to increase National Grid's 2012-13 allowances by £8.4 million under the Further Works mechanism.

Having considered all relevant factors, including the response to our consultation, we confirmed our minded to position and determine that National Grid's 2012-13 allowances should be increased by £8.4 million.

Table 4 of Appendix 1 to Special Condition 6B sets out additional TII capital expenditure allowances for 2009-10 to 2012-13 under the Further Works mechanism. We propose to make the licence modification set out in Schedule 1 to the Notice to include the additional allowance for the Anglo Scottish project.

Next Steps

Relevant licence holders and other interested parties have 28 days to make representations on the proposed licence modification before we reach a decision on whether or not to give effect to the proposed licence modification. If we decide to make the proposed modification, they will take effect no less than 56 days after our decision to make the modification is published.

If you wish to respond to this consultation, please do so by 18 August 2014. Please email your response to Bethany Hanna at Bethany.hanna@ofgem.gov.uk or send your response by post to Bethany Hanna, Ofgem, 9 Millbank, London, SW1P 3GE.

⁴ Special Condition 6I: Specification of Baseline Wider Works Outputs and Strategic Wider Works Outputs and Assessment of Allowed Expenditure

Unless marked as confidential, all responses will be published by placing them on our website at www.ofgem.gov.uk. Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004. If possible, we prefer to receive responses in an electronic format so they can be more easily placed on the Ofgem website.

Yours sincerely,



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