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for energy consumers

Electricity Transmission licensees  
and other interested parties

Your Ref:  
Our Ref:  
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Date: 24 October 2014

Dear Colleague,

**Statutory Consultation on our proposal to modify the calculation of the annual incentive revenue allowance under the Transmission Investment for Renewable Generation (TIRG) mechanism**

We have identified typographical errors within Special Condition 3J of the electricity transmission licences. The errors could lead to the incorrect calculation of allowed revenue within the TIRG mechanism. This statutory consultation seeks views on our proposed solution to these errors.

Please find enclosed a proposed modification to paragraph 3J.7 of special condition 3J of the electricity transmission special conditions held by each of the electricity transmission owners (TOs) in Great Britain<sup>1</sup>. Special condition 3J details the terms of the TIRG mechanism.

The TIRG mechanism was introduced in 2004 to speed up the delivery of specific transmission investment projects that help connect renewable generation. In the process of updating the relevant licence condition to cover the current price control period, RIIO-T1<sup>2</sup>, errors were introduced into the calculation of the revenue that the TOs are allowed to earn on these projects in the five-year period that follows their completion.

In the licences of all three TOs, the calculation of ETIRG is intended to set their post-construction revenue by multiplying the annual revenue specified in the licence by a scaling factor ("SAFRTIRG"). The scaling factor is based on our efficient view of the value of the assets delivered by a TIRG project compared with the original value forecast in the licence. Without making the proposed modification to this calculation, the scaling factor is erroneously added to the annual revenue specified in the licence, rather than multiplying by it. Applying this calculation in practice would derive an incorrect level of revenue for the transmission company.

Additionally, in three instances within paragraph 3J.7 of the SPT licence, the "SAFRTIRG" scaling factor is incorrectly referred to as "SAFTIRG". The value "SAFTIRG" should only

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<sup>1</sup> The three electricity transmission owners in Great Britain are: National Grid Electricity Transmission Plc (NGET), SP Transmission plc (SPT) and Scottish Hydro Electric Transmission plc (SHE Transmission).

<sup>2</sup> RIIO-T1 refers to both the Transmission Price control period that covers the period 2013-2021 and the work that went into setting the associated regulatory arrangements, including the modifications to associated licence conditions. Further detail on the RIIO-T1 price control can be found here: <https://www.ofgem.gov.uk/network-regulation---riio-model/riio-t1-price-control>

relate to Ofgem's view of the value of the relevant assets. It should not operate as a scaling factor.

We have confirmed with the relevant transmission licence holders that the errors have been correctly identified, and for this reason, we consider it is appropriate to follow a 4-week consultation period in line with statutory requirements. Since the number of errors differs between the SPT licence and the NGET and SHE Transmission licences, we have drafted a separate notification for each licensee, covering each of the relevant modifications proposed.

Any representations with respect to the proposed licence modifications must be made on or before 21 November 2014 to: Thomas Johns, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to [Thomas.Johns@ofgem.gov.uk](mailto:Thomas.Johns@ofgem.gov.uk)

Subject to the responses received to the consultation, we intend to publish a decision in early December 2014. If the Authority decides to make the proposed modification it will take effect not less than 56 days after the decision is published.

If you require any further information relating to this consultation, please contact Thomas Johns using the contact details set out above.

Yours sincerely,

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