

**To the Company Secretary:**

Scottish Hydro Electric Transmission plc  
(Company Number: SC213461)

**DIRECTIONS ISSUED BY THE GAS AND ELECTRICITY MARKETS AUTHORITY TO SCOTTISH HYDRO ELECTRIC TRANSMISSION PLC UNDER THE SPECIAL CONDITIONS OF ITS ELECTRICITY TRANSMISSION LICENCE IN RESPECT OF THE ANNUAL ITERATION PROCESS FOR THE RIIO-ET1 PRICE CONTROL FINANCIAL MODEL**

**WHEREAS**

1. Scottish Hydro Electric Transmission plc ('the licensee') is the holder of a electricity transmission licence ('the licence') granted or treated as granted under section 6(1)(b) of the Electricity Act 1989.
2. For the purposes of these directions:
  - (a) the expression 'Relevant Year t' has the same meaning as is given to it in Special Condition 1A (Definitions and Interpretation) of the licence, and references to Relevant Year t-1 are to be construed accordingly; and
  - (b) Relevant Year t is the Relevant Year that commences on 1 April 2015 and ends on 31 March 2016 ('Relevant Year 2015/16').
3. Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model) requires the Gas and Electricity Markets Authority to:
  - (a) carry out the Annual Iteration Process for the ET1 Price Control Financial Model; and
  - (b) direct the value of the term MOD for Relevant Year t;  
by 30 November in Relevant Year t-1.
4. Special Condition 5B, paragraphs 5B.11 and 5B.12, provide that if, for any reason, the Authority does not direct a value for the term MOD by 30 November in the Relevant Year t-1, , then the Authority will complete the Annual Iteration Process as soon as is reasonably practicable after 30 November.  
The licensee was excluded from the Annual Iteration Process( AIP) run for November 2014, because a substantial investment in a project was being assessed at that time, which could have a significant impact on the modification to the licensee's base revenue (MOD).
5. The following Special Conditions provide for the Authority to direct revised PCFM Variable Values for the licensee for the purpose of the Annual Iteration Process for the ET1 Price Control Financial Model that forms part of Special Condition 5A of the licence:
  - (a) Special Condition 6A (Legacy price control adjustments – Transmission Owner) in respect of LAR, (and it's component term values IAR, TAR, CAR, and SAR), LRAV,(and its component term values IRAV, CRAV, and SRAV;
  - (b) Special Condition 6C (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – Transmission Owner) in respect of ALC, ARC, AOC, ACO and ANC values;
  - (c) Special Condition 6D (Specified financial adjustments – Transmission Owner) in respect of EDE, APFE, TTE, TGIE and CDE values;
  - (d) Special Condition 6E (The Innovation Roll-out Mechanism) in respect of IRM values;
  - (e) Special Condition 6F (Baseline Generation Connections Outputs and Generation Connections volume driver) in respect of GCE;
  - (f) Special Condition 6G (Mitigating the impact of Pre-existing Transmission Infrastructure on the visual amenity of Designated Areas) in respect of EPIE values;

- (g) Special Condition 6H (Arrangements for the recovery of uncertain costs) in respect of IAEEPS, IAEBT, IAEWL and IAESSCM values;
- (h) Special Condition 6I (Specification of Baseline Wider Works Outputs and Strategic Wider Works Outputs and Assessment of Allowed Expenditure) in respect of WWE values.

6. Each of the Special Conditions referred to in paragraph 5:

- (a) sets out the basis on which any revisions to relevant PCFM Variable Values are to be determined; and
- (b) where applicable, specifies the price control financial methodology in accordance with which revisions to the relevant PCFM Variable Value(s) are to be determined and the chapter of the ET1 Price Control Financial Handbook containing that methodology.

7. The reason for these directions is to revise PCFM Variable Values as used in the Annual Iteration Process for the ET1 Price Control Financial Model (as each of those terms are defined in Special Condition 1A). The Annual Iteration Process is used to calculate values for the term MOD that is used in the formulae set out in Special Condition 3A (Restriction of Transmission Network Revenue).

8. In accordance with relevant requirements set out in the Special Conditions referred to in paragraph 5, on 26 January 2015, the Authority gave notice of the revised PCFM Variable Values that it proposed to direct by 9 February 2015 and specified that any representations concerning the proposed values should be made within fourteen days of receiving the notice.

9. The Authority received no representations.

**NOW** the Authority pursuant to the provisions of the Special Conditions referred to in paragraphs 3 and 4, **HEREBY DIRECTS** that:

- the PCFM Variable Values and component term values referred to in paragraph 4 are to be revised as shown in Schedule 1 to these directions; and
- the term MOD for the licensee for Relevant Year 2015/16 is to take the value £85.2m.

Schedule 2 to these directions shows the complete PCFM Variable Values Table (as that term is defined in Special Condition 1A) including the values revised under these directions (in bold font) and the values that have not been revised under these directions.

This constitutes notice for the reasons for the Authority's decision pursuant to section 49A of the Electricity Act 1989.



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**Ian Rowson**

**9 February 2015**

**Associate Partner, Regulatory Finance**

**Duly authorised on behalf of the Gas and Electricity Markets Authority**

**Schedule 1 to Directions issued by the Gas and Electricity Markets Authority to Scottish Hydro Electric Transmission plc dated 9 February 2015**

[illegible]

Scottish Hydro Electric Transmission plc	<i>Proposed Revised PCFM Variable Values</i>							
<i>PCFM Variable Value Name and determination provision</i>	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
IAEBT Part B of Special Condition 6H	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
IAEWL Part B of Special Condition 6H	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
IAESSCM Part B of Special Condition 6H	No revision	No revision	No revision	No revision	No revision	No revision	No revision	No revision
WWE Part G of Special Condition 6I	<b>35.3</b>	<b>164.1</b>	<b>415.7</b>	<b>359.3</b>	<b>172.3</b>	<b>18.0</b>	<b>7.1</b>	<b>5.8</b>

### Scottish Hydro Electric Transmission plc

Component term values used to determine the values for LAR and LRAV in the table above:

IAR = 17.1  
 TAR = -0.9  
 CAR = 2.3  
 SAR = 0.0  
 IRAV = 0.0  
 CRAV = -70.9  
 SRAV = 0.0

## Schedule 2 to Directions issued by the Gas and Electricity Markets Authority to Scottish Hydro Electric Transmission plc dated 9 February 2015

**PCFM Variable Values Table (as that term is defined in Special Condition 1A) including the values revised under these directions (in bold font) and the values that have not been revised under these directions**

SHE-Transmission PLC													
Parameter	Licence condition	Units	Term	Constant	Annual values								
PCFM year ending	ET1 PCFM November 2014.xlsm			31 Mar 2016	31 Mar 2014	31 Mar 2015	31 Mar 2016	31 Mar 2017	31 Mar 2018	31 Mar 2019	31 Mar 2020	31 Mar 2021	
PCFM Variable Values Table													
Allowed percentage cost of debt	6D	annual real %	CDE / SO CDE		2.92%	2.52%	2.13%	2.13%	2.13%	2.13%	2.13%	2.13%	
Actual load related capex expenditure	6C	£m 09/10 prices	ALC		121.1	-	-	-	-	-	-	-	
Actual asset replacement capex expenditure	6C	£m 09/10 prices	ARC		16.5	-	-	-	-	-	-	-	
Actual other capex expenditure	6C	£m 09/10 prices	AOC		0.5	-	-	-	-	-	-	-	
Actual controllable opex	6C	£m 09/10 prices	ACO		11.2	-	-	-	-	-	-	-	
Actual non-operational capex	6C	£m 09/10 prices	ANC		0.3	-	-	-	-	-	-	-	
Uncertain costs - enhanced security	6H	£m 09/10 prices	IAEEPS		-	-	-	-	-	-	-	-	
Uncertain costs – workforce renewal (SPTL only)	6H	£m 09/10 prices	IAEWR		-	-	-	-	-	-	-	-	
Uncertain costs – BT 21st Century (SHETPLC only)	6H	£m 09/10 prices	IAEBT		-	-	-	-	-	-	-	-	
Uncertain costs – compensation costs for landowners for wayleave (SHETPLC only)	6H	£m 09/10 prices	IAEWL		-	-	-	-	-	-	-	-	
Baseline and strategic wider works outputs	6I	£m 09/10 prices	WWE		35.3	164.1	415.7	359.3	172.3	18.0	7.1	5.8	
Network development and wider works volume driver (NGET only)	6J	£m 09/10 prices	WWI		-	-	-	-	-	-	-	-	
Enhancements to pre-existing infrastructure	6G	£m 09/10 prices	EPIE		-	-	-	-	-	-	-	-	
Demand related infrastructure volume driver	6L	£m 09/10 prices	DRI		-	-	-	-	-	-	-	-	
Undergrounding volume driver	6K	£m 09/10 prices	UCE		-	-	-	-	-	-	-	-	
Generation connections volume driver	6F	£m 09/10 prices	GCE		19.1	30.4	73.9	53.2	15.9	6.2	-	-	
Innovation roll out mechanism	6E	£m 09/10 prices	IRM		-	-	-	-	-	-	-	-	
Exceptional Sub Sea Cable Faults	6H	£m 09/10 prices	IAESSCM		-	-	-	-	-	-	-	-	
Non-load Related Work Costs	6H	£m 09/10 prices	IAENLUM		-	-	-	-	-	-	-	-	
Tax liability - gearing/interest costs	6D	£m nominal	TGIE		-	-	-	-	-	-	-	-	
Tax liability - tax trigger events	6D	£m 09/10 prices	TTE		-	-	-	-	-	-	-	-	
Pension scheme administration and Pension Protection Fund Levy	6D	£m 09/10 prices	APFE		-	-	-	-	-	-	-	-	
Pension Scheme Established Deficit	6D	£m 09/10 prices	EDE		0.5	0.5	1.5	1.5	1.5	1.5	1.5	1.5	#
Legacy price control adjustments to allowed revenue	6A	£m 09/10 prices	LAR		18.5								
Legacy price control adjustments to RAV	6A	£m 09/10 prices	LRAV		(70.9)								