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Your Ref:
Our Ref:
Direct Dial: 0141 331 6010
Email: Anthony.mungall@ofgem.gov.uk

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Assessment of request under the Transmission Provisions for Wider Works mechanism within special condition 6J of National Grid Electricity Transmission's electricity transmission licence

On 31 July 2017, National Grid Electricity Transmission plc (NGET) submitted a request to recover efficiently incurred construction costs of £21.861m (2009/10 prices)¹ in relation to the North London Reinforcement Project (NLRP) under the Transmission Provisions for Wider Works (TPWW) mechanism within NGET's electricity transmission licence.

This letter sets out the outcome of our assessment of NGET's request. We found that £8.595m of the claimed costs is recoverable whilst the remaining element of the claim has already been funded through its inclusion in the regulatory asset base.

Background

Under the RIIO-ET1 framework, incremental wider works (IWW) outputs are measured in terms of electricity transfer capability either across or within system boundaries².

NGET's baseline IWW Allowed Expenditure reflects the timing of overall increases in boundary transfer capability. This was based on best information then available about the contracted generation background, demand changes forecast, and clusters of prospective transmission reinforcements to best meet consumers' long-term needs.

However it was recognised that, after a transmission owner (TO) had initiated network investment in response to requirements at the time, conditions could change leading to delay or disappearance of the needs case.

The RIIO-ET1 framework introduced the licence term TPWW such that, should conditions change and it stops being in the interests of existing and future consumers for an investment to proceed, costs efficiently incurred can be recovered by NGET. The mechanism also provides a safeguard that NGET does not continue to incur costs on new infrastructure that is not aligned with consumers' needs.

As part of its ongoing monitoring of investment plans, NGET has identified that many of the connection projects that drove the NLRP have fallen away. A number of reinforcement requirements have also been delayed. As a result, the NLRP investment is no longer required during the RIIO-ET1 period.

¹ All financial values shown in this letter are in 2009-10 prices (£m).

² A system boundary splits the transmission network into two parts across which the capability to transfer electrical power can be assessed.

Our assessment

We have evaluated NGET's request and the economic efficiency of the relevant costs incurred. The outcome of our assessment is that:

- £8.595m of efficiently incurred costs are recoverable through the TPWW mechanism, and
- the remaining costs (£13.266m) have already been funded through inclusion in NGET's regulatory asset base.

Related issue

The TPWW claim process has highlighted an issue related to the NLRP project but not captured by TPWW.

Part of the NLRP project costs already funded through their inclusion in the regulatory asset base was for purchasing land which is no longer required for meeting the current system need.

We expect NGET's course of action in relation to the land to deliver best long term value for consumers. Any financial gains that NGET has derived from land ownership (whether through leasing out or sales) will be returned to consumers through the RIIO-ET1 'close-out' process.

Next steps

The recoverable costs referred to above will be included as part of the upcoming annual iteration process (AIP), due to conclude on 30 November 2018.

Subject to the outcome of the AIP, the recoverable costs will form part of NGET's total expenditure (Totex) allowance reported in the Price Control Financial Model (PCFM).

Min Zhu
Deputy Director, Electricity Transmission
10 October 2018