

Company Secretary
Scottish Hydro Electric Transmission plc
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Direct Dial: 0141 354 5416
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Date: 1 April 2019

Dear Company Secretary,

Electricity Network Innovation Competition (NIC) - Funding Direction

The NIC Funding Direction¹ sets out the amount that Scottish Hydro Electric Transmission Ltd (SHE-T) must transfer to National Grid Electricity System Operator Limited (NGESO). SHE-T is returning £2.45 million due to the closure of its project, Modular Approach to Substation Construction (MASC). This funding will be returned in the 2019/20 financial year.

For the avoidance of doubt, legal separation of National Grid Electricity Transmission Plc's (NGET's) activities as between the activities of the electricity system operator and the activities of transmission owner has recently been completed. We are therefore reissuing the Funding Direction dated 11 January 2019 issued to SHE-T in order to instruct the return of funds to NGESO. The Funding Direction dated 11 January 2019 issued to SHE-T ceases to have effect from the date of this Funding Direction.

Background

We issue Funding Directions every year under the provisions of Section B: Implementation Requirements, Chapter 7 (Funding Direction) of the Electricity NIC Governance Document². This Funding Direction has been issued pursuant to Special Condition 3I of SHE-T's licence.

Funding returned to customers through the Funding Return Mechanism

In December 2016, Ofgem approved the reduction in scope and early conclusion of SHE-T's project MASC, due to challenges in implementing the trials of its modular solution³. 90% of funds awarded are to be returned to customers as a result of this reduced scope and curtailment of the project. SHE-T has been allowed to retain 10% of project funds in recognition of the learning gained from the project's early stages, and the fact that SHE-T will not be applying for the Successful Delivery Reward. The project was concluded in March 2017, to its revised schedule.

¹ Capitalised terms not otherwise defined in this document have the meaning given to them in Appendix 1 of the Electricity NIC Governance Document.

² <https://www.ofgem.gov.uk/publications-and-updates/version-30-network-innovation-competition-governance-documents>

³ <https://www.ofgem.gov.uk/publications-and-updates/network-innovation-competition-amendments-she-transmission-s-modular-approach-substation-construction-masc-project>

Implementation

As the potential learning from the relevant projects provides benefits to all Network Licensees, they are funded by all customers through Transmission Network Charges., recovered by NGENSO. Therefore we are requiring SHE-T to return funding to NGENSO. We have issued a separate direction adjusting NGENSO's Maximum Allowed Revenue in accordance with the provisions of Special Condition 3A of the NGENSO licence for the Relevant Year 2019/20, and setting the amount that NGENSO needs to transfer to the Network Licensees and to NGENSO.

In accordance with Special Conditions 3I and 3A of the NGENSO Electricity Transmission Licence and in accordance with the Electricity NIC Governance Document, the schedule to this Funding Direction:

- (a) sets out the amounts that are to be transferred to NGENSO from SHE-T – see Table 1; and
- (b) identifies the manner in which and timescale over which the net amounts will be transferred.

The schedule to this Funding Direction includes the above information for the Formula Year 2019/20.

In accordance with paragraph 3I.16 of Special Condition 3I and Amended Standard Condition E12-J11 of the Electricity Transmission Licence, and in accordance with the Electricity NIC Governance Document, the Authority hereby requires SHE-T to comply with the conditions set out in the Schedule to this Funding Direction.

This Funding Direction constitutes notice pursuant to section 49A (Reasons for decisions) of the Electricity Act 1989.

Yours faithfully,



Steven McMahon
Deputy Director, Electricity Distribution and Cross Sector Policy
Signed for and on behalf of the Authority

Schedule to Funding Direction

1. The net amounts that must be transferred between Network Licensees

Table 1 contains the net amounts that must be transferred by Scottish Hydro Electric Transmission plc (SHE-T) to National Grid Electricity System Operator Limited (NGESO) in its role as System Operator in the Relevant Year commencing 1 April 2019. For the avoidance of doubt, no adjustments for inflation should be made to these numbers.

2. The manner in which and timescale over which the net amounts will be transferred

The transfers must be made on an equal monthly basis, for the entirety of the Relevant Year commencing 1 April 2019 such that the total amount transferred over the Relevant Year commencing 1 April 2019 equals the net amount set out in Table 1.

NGESO must provide its bank account details to SHE-T by 1 March 2019. SHE-T will make transfers to the specified bank account on the day of the month agreed by SHE-T.

Table 1 – Amount to be transferred to NGESO by SHET

Network Licensee	Amount to be transferred to NGESO
Scottish Hydro Electric Transmission plc	2,449,682