

To:

**National Grid Electricity Transmission Plc
Scottish Hydro Electric Transmission Plc
SP Transmission Plc**

**Electricity Act 1989
Section 11A(2)**

Notice of statutory consultation on a proposal to modify the special conditions of the electricity transmission licences held by the licensees above

1. The Gas and Electricity Markets Authority ('the Authority')¹ proposes to modify Special Condition 3H of the electricity transmission licences held by the licensees listed above, granted or treated as granted under section 6(1)(b) of the Electricity Act 1989.
2. We are proposing these modifications to implement our policy decision of 31 March 2017 that licensees should not be able to recover the cost of preparing submissions in respect of projects which passed the Network Innovation Competition initial screening process in 2018/19 and thereafter.²
3. The effect of the proposed modifications is to reduce to zero the amount licensees can recover as Bid Preparation Costs to zero in 2018/19 and thereafter.
4. The proposed modifications are set out in the Appendices to this notice. A copy of the proposed modifications and other documents referred to in this Notice have been published on our website (www.ofgem.gov.uk). Alternatively they are available from our Research and Information Centre, 9 Millbank, London, SW1P 3GE (020 7901 7003).
5. Any representations with respect to the proposed licencemodifications must be made on or before 28 June 2017 to: Anna Kulhavy, Office of Gas and Electricity Markets, 3rd Floor, Cornerstone, 107 West Regent Street, Glasgow, G2 2BA or by email to networks.innovation@ofgem.gov.uk.
6. We normally publish all responses on our website. However, if you do not wish your response to be made public then please clearly mark it as not for publication. We prefer to receive responses in an electronic form so they can be placed easily on our website.
7. If we decide to make the proposed modifications they will take effect not less than 56 days after the decision is published.

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Geoffrey Randall
Duly authorised on behalf of the
Gas and Electricity Markets Authority

1 June 2017

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

² The policy decision document is available on our website: <https://www.ofgem.gov.uk/publications-and-updates/network-innovation-review-our-policy-decision>

Appendix 1 – Special Condition 3H (The Network Innovation Allowance) of the Electricity Transmission Licences held by National Grid Electricity Transmission Plc and Scottish Power Transmission Plc

Part B: Calculation of Allowable NIA Expenditure (ANIA)

3H.6 For the purposes of the Principal Formula the amount of ANIA is derived from the following formula:

$$ANIA_t = PTRA \times \min((ENIA_t + BPC_t), (NIAV \times BR_t))$$

where:

PTRA is the pass-through factor and has the value of 0.9.

ENIA_t means the Eligible NIA Expenditure for Relevant Year t incurred by the licensee in respect of Eligible NIA Projects as calculated by the licensee in accordance with the NIA Governance Document and reported to the Authority in accordance **with** Standard Condition B15 (Regulatory Instructions and Guidance).

BPC_t means the Eligible NIC Bid Preparation Costs for the Relevant Year t as calculated by the licensee in accordance with this condition and reported to the Authority in accordance with Standard Condition B15. ~~(provided that, where the licensee is part of an Electricity Transmission Group, the amount of such costs recoverable by all of the licensees in that group cannot be more than exceed the amount calculated in accordance with this condition.~~

The value of BPC_t for Relevant Years t = 2013/14 to 2017/18 is the lower of:

(a) £175,000 in total; or

(b) 5% of the amount applied for by the Licensee or the group where relevant under the Network Innovation Competition, as defined in Special Condition 3I (the Network Innovation Competition), whichever is less

in the For Relevant Year 2018/19 and in subsequent Relevant Years BPC_t will have the value zero, except insofar as the Authority consents otherwise).

NIAV means the licensee's NIA Percentage, and has the value that is attributed to the licensee in Appendix 1 (which has effect as part of this condition).

BR_t means the Base Transmission Revenue in Relevant Year t, and is derived in accordance with Part B of Special Condition 3A.

Appendix 2 – Special Condition 3H (The Network Innovation Allowance) of the Electricity Transmission Licence held by Scottish Hydro Power Transmission Plc

Part B: Calculation of Allowable NIA Expenditure (ANIA)

3H.6 For the purposes of the Principal Formula ANIA is derived (subject to paragraph 3H.7) from the following formula:

$$ANIA_t = PTRA \times \min((ENIA_t + BPC_t), (NIAV \times AFR))$$

where:

PTRA is the pass-through factor and has the value of 0.9.

ENIA_t means the Eligible NIA Expenditure for Relevant Year t incurred by the licensee in respect of Eligible NIA Projects as calculated by the licensee in accordance with the NIA Governance Document and reported to the Authority in accordance with Standard Condition B15 (Regulatory Instructions and Guidance).

BPC_t means the Eligible NIC Bid Preparation Costs for the Relevant Year t as calculated by the licensee in accordance with this condition and reported to the Authority in accordance with Standard Condition B15. ~~(provided that, where the licensee is part of an Electricity Transmission Group, the amount of such costs recoverable by all of the licensees in that group cannot be more than exceed the amount calculated in accordance with this condition.~~

The value of BPC_t for Relevant Years t = 2013/14 to 2017/18 is the lower of:

- (a)** £175,000 in total; or
- (b)** 5% of the amount applied for by the **Licensee or the group where relevant** under the Network Innovation Competition, as defined in Special Condition 3I (the Network Innovation Competition), **whichever is less**

in the For Relevant Year 2018/19 and in subsequent Relevant Years BPC_t will have the value zero, except insofar as the Authority consents otherwise).

NIAV means the licensee's NIA Percentage, and has the value attributed to the licensee in Appendix 1 (which has effect as part of this condition).

AFR means average annual forecast revenue and has the value attributed to the licensee in Appendix 2 (which has effect as part of this condition).