

To:

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

**Electricity Act 1989
Section 11A(1)(a)**

**Modification of the special conditions of the electricity transmission licences held
by the above licensees**

1. The above licensees are each the holder of an electricity transmission licence ('the Licence') granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 ('the Act').
2. Under section 11A(2) of the Act, the Gas and Electricity Markets Authority ('the Authority')¹ gave notice on 1 June 2017 ('the Notice') that it proposes to modify Special Condition 3H (The Network Innovation Allowance) of the Licence. We stated that any representations in relation to or any objections to the modification proposal must be made on or before 28 June 2017.
3. A copy of the Notice was sent to the Secretary of State in accordance with section 11A(4)(b) of the Act, and we have not received a direction that the change should not be made.
4. We received no objections or representations in relation to the proposed modifications.
5. We are making this licence change 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 pass the Network Innovation Competition initial screening process in 2018/19 and thereafter². The modifications are set out in Schedules 1 and 2 of this Notice.
6. The effect of the modifications is to reduce to zero the amount licensees in whose licences these modifications are made can recover as Bid Preparation Costs in 2018/19 and thereafter.
7. Where an application for permission to appeal our decision is made to the Competition and Markets Authority (CMA) under section 11C of the Act, Rule 5.7 of the CMA's Energy Licence Modification Appeals Rules³ requires that the appellant must send to any relevant licence holders who are not parties to the appeal a non-confidential notice setting out the matters required in Rule 5.2. The attached Schedule 3 provides a list of the relevant licence holders in relation to this modification. Section 11A(10) of the Act sets out the meaning of 'relevant licence holder'.
8. Under the powers set out in section 11A(1)(a) of the Act, we hereby modify the special conditions of the electricity transmission licence of the licensees set out in the attached Schedule 3 in the manner specified in attached Schedules 1 and 2. This decision will take effect from 1 September 2017.

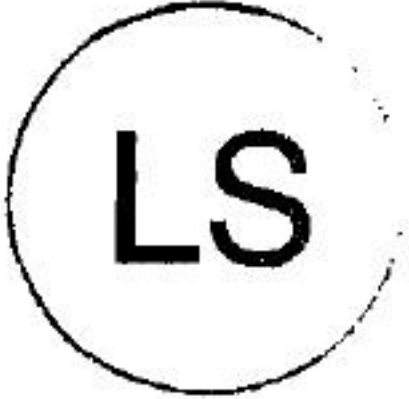
¹ The terms "the Authority", "we" and "us" are used interchangeably in this document.

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

³ The rules were published by the Competition Commission in September 2012. On 1 April 2014, the Competition Commission was abolished and its functions transferred to the CMA.

9. This document is notice of the reasons for the decision to modify the electricity transmission licence held by the licensees set out in the attached Schedule 3 as required by section 49A(2) of the Act.

**The Official Seal of the Gas and Electricity Markets Authority
here affixed is authenticated by the signature of**



.....
**Geoffrey Randall, Associate Partner, RIIO Networks
Duly authorised on behalf of the
Gas and Electricity Markets Authority**

18 July 2017

Schedule 1: Special Condition 3H (The Network Innovation Allowance) of the Electricity Transmission Licences held by National Grid Electricity Transmission Plc and SP 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:

$$\text{ANIA}_t = \text{PTRA} \times \min((\text{ENIA}_t + \text{BPC}_t), (\text{NIAV} \times \text{BR}_t))$$

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, w~~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.

Schedule 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).

Schedule 3: Relevant Licence Holders

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