

**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 an electricity transmission licence ('the licence') granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 ('the Act').
2. For the purposes of these directions:
  - (a) the expression 'Relevant Year t' has the same meaning as 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 2019 and ends on 31 March 2020 ('Relevant Year 2019/20').
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 (as each of those terms is defined in Special Condition 1A); and
  - (b) direct the value of the term MOD for Relevant Year t, for the purposes of the formulae that are specified in Special Condition 3A (Restriction of Transmission Network Revenue);  
by 30 November in Relevant Year t-1.
4. The following Special Conditions provide for the Authority to direct revised PCFM Variable Values (as defined in Special Condition 1A) 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 its component term values IAR, TAR, CAR, and SAR) and 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 values;
  - (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 IAEBT, IAEWL, IAEEPS and IAESSCM values; and
  - (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.
5. Each of the Special Conditions referred to in paragraph 4:
  - (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.
6. 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. 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).
7. In accordance with the requirements set out in the Special Conditions referred to in paragraph 4, on 14 November 2018, the Authority gave notice of the revised PCFM Variable Values that it proposed to direct by 30 November in Relevant Year t-1 and specified that any representations concerning the proposed values should be made within fourteen days of receiving the notice.
8. The Authority received no representations.

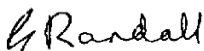
**NOW** the Authority pursuant to the provisions of the Special Conditions referred to in paragraphs 3 and 4, **HEREBY DIRECTS** that:

- 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 2019/20 is to take the value £76.8m.

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 Act.

**Geoffrey Randall**



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**Deputy Director, Network Price Controls**

Duly authorised on behalf of the Gas and Electricity Markets Authority  
30 November 2018

**SCHEDULE 1 TO THE AUTHORITY'S DIRECTIONS - REVISIONS TO VARIABLE VALUES (shown to 1 d.p., except CDE shown to 2 d.p.)**

Scottish Hydro Electric Transmission plc				Regulatory Year Ending							
PCFM Variable Value				RIIO-ET1							
CDE	Special Condition	Price Base / Units	31 March 2014	31 March 2015	31 March 2016	31 March 2017	31 March 2018	31 March 2019	31 March 2020	31 March 2021	
CDE	Allowed percentage cost of debt	6D	Annual Real %	No Revision	No Revision	No Revision	No Revision	No Revision	<b>1.16%</b>	<b>1.00%</b>	<b>1.00%</b>
ALC	Actual load related capex expenditure	6C	£m 09/10 Prices	No Revision	No Revision	No Revision	No Revision	<b>268.8</b>	No Revision	No Revision	No Revision
ARC	Actual asset replacement capex expenditure	6C	£m 09/10 Prices	No Revision	No Revision	No Revision	No Revision	<b>31.6</b>	No Revision	No Revision	No Revision
AOC	Actual other capex expenditure	6C	£m 09/10 Prices	No Revision	No Revision	No Revision	No Revision	<b>8.5</b>	No Revision	No Revision	No Revision
ACO	Actual controllable opex	6C	£m 09/10 Prices	<b>11.2</b>	No Revision	No Revision	No Revision	<b>25.3</b>	No Revision	No Revision	No Revision
ANC	Actual non-operational capex	6C	£m 09/10 Prices	No Revision	No Revision	No Revision	No Revision	<b>4.1</b>	No Revision	No Revision	No Revision
IAEPPS	Uncertain costs - enhanced security	6H	£m 09/10 Prices	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
IAEWR	Uncertain costs – workforce renewal (SPTL only)	6H	£m 09/10 Prices	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
IAEBT	Uncertain costs – BT 21st Century (SHETPLC only)	6H	£m 09/10 Prices	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
IAEWL	Uncertain costs – compensation costs for landowners for wayleave (SHETPLC only)	6H	£m 09/10 Prices	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
WWE	Baseline and strategic wider works outputs	6I	£m 09/10 Prices	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
IWW	Network development and wider works volume driver (NGET only)	6J	£m 09/10 Prices	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
EPIE	Enhancements to pre-existing infrastructure	6G	£m 09/10 Prices	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
DRI	Demand related infrastructure volume driver	6L	£m 09/10 Prices	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
UCE	Undergrounding volume driver	6K	£m 09/10 Prices	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
GCE	Generation connections volume driver	6F	£m 09/10 Prices	No Revision	<b>53.8</b>	<b>97.7</b>	<b>101.8</b>	<b>117.6</b>	<b>109.4</b>	<b>137.4</b>	No Revision
IRM	Innovation roll out mechanism	6E	£m 09/10 Prices	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
IAESSCM	Exceptional Sub Sea Cable Faults	6H	£m 09/10 Prices	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
IAENLUM	Non-load Related Work Costs	6H	£m 09/10 Prices	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
TGIE	Tax liability - gearing/interest costs	6D	£m Nominal	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
TTE	Tax liability - tax trigger events	6D	£m 09/10 Prices	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
APFE	Pension scheme administration and Pension Protection Fund Levy	6D	£m 09/10 Prices	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
EDE	Pension Scheme Established Deficit	6D	£m 09/10 Prices	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision	No Revision
LAR	Legacy price control adjustments to allowed revenue	6A	£m 09/10 Prices	No Revision							
LRAV	Legacy price control adjustments to RAV	6A	£m 09/10 Prices	No Revision							

Scottish Hydro Electric Transmission plc			Financial Handbook	Price Base	31 March 2014
Incremental Legacy Adjustments used to calculate LAR					
SAR	Logged up and security costs adjustments	Chapter 15	£m 09/10 Prices		0.0
TAR	Gearing and interest cost adjustments	Chapter 15	£m 09/10 Prices		-0.9
CAR	Capex incentive scheme adjustments	Chapter 15	£m 09/10 Prices		2.3
IAR	Transmission asset owner incentive scheme	Chapter 15	£m 09/10 Prices		17.2
Incremental Legacy Adjustments used to calculate LRAV					
SRAV	Logged up and security costs adjustments	Chapter 15	£m 09/10 Prices		0.0
CRAV	Capex incentive scheme adjustments	Chapter 15	£m 09/10 Prices		-70.9
IRAV	Transmission asset owner incentive scheme	Chapter 15	£m 09/10 Prices		0.0

**SCHEDULE 2 TO THE AUTHORITY'S DIRECTIONS - VARIABLE VALUE TABLE**

Variable Name	Special Condition	Price Base / Units	Term	Regulatory Year Ending							
				31 March 2014	31 March 2015	31 March 2016	31 March 2017	31 March 2018	31 March 2019	31 March 2020	31 March 2021
Allowed percentage cost of debt	6D	Annual Real %	CDE	2.92%	2.50%	2.15%	1.79%	1.51%	<b>1.16%</b>	<b>1.00%</b>	<b>1.00%</b>
Actual load related capex expenditure	6C	£m 09/10 Prices	ALC	121.1	250.6	402.9	326.5	<b>268.8</b>	-	-	-
Actual asset replacement capex expenditure	6C	£m 09/10 Prices	ARC	16.4	16.4	10.9	17.1	<b>31.6</b>	-	-	-
Actual other capex expenditure	6C	£m 09/10 Prices	AOC	0.6	2.2	3.9	8.5	<b>8.5</b>	-	-	-
Actual controllable opex	6C	£m 09/10 Prices	ACO	<b>11.2</b>	13.7	16.7	19.7	<b>25.3</b>	-	-	-
Actual non-operational capex	6C	£m 09/10 Prices	ANC	0.3	1.6	1.4	4.0	<b>4.1</b>	-	-	-
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	IWW	-	-	-	-	-	-	-	-
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	36.1	<b>53.8</b>	<b>97.7</b>	<b>101.8</b>	<b>117.6</b>	<b>109.4</b>	<b>137.4</b>	-
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	2.7	2.1	-
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)							