

**To:**

**Scottish Hydro Electric Transmission plc (SHE-T)**  
**SP Transmission Ltd (SPTL)**  
**National Grid Electricity Transmission plc (NGET)**

**Notice under Part B of Special Condition 5A (Governance of ET1 Price Control Financial Instruments) of the Electricity Transmission Licence to make modifications to the ET1 Price Control Financial Model**

1. Each of the companies to whom this Notice is addressed (each 'the licensee') is the holder of an Electricity Transmission Licence granted or treated as granted under section 6(1)(b) of the Electricity Act 1989.
2. Special Condition (SC) 5A (Governance of ET1 Price Control Financial Instruments) of the Electricity Transmission Licence establishes the circumstances in which the Gas and Electricity Markets Authority (the 'Authority')<sup>1</sup>, by way of direction, can make changes to the ET1 Price Control Financial Model ('the Model').
3. Part A of SC 5A sets out the assessment process the Authority will follow in order to assess the likely impact of an intended modification and Part B of SC 5A sets out the circumstances in which a modification may be made.
4. In accordance with SC 5A.9, the Authority hereby gives notice to the licensee that it proposes to modify the Model in the manner indicated in Table 1 in this Notice.

**Table 1 – Location of modifications within the Model**

Nature of Modification	Sheet reference	Cell reference
Innovation Roll-out mechanism costs will now be 100% allocated to the " <i>load related capex expenditure</i> " category within the Model. Previously, these costs were allocated across several capex and opex categories.	SPTL	AH163:A0163

5. The ET1-Price Control Financial Model allocates each item of allowed expenditure across a range of Capex and Opex expenditure categories, which then feed into Total expenditure, or Totex.
6. For SPTL, Innovation Roll-out mechanism costs had previously been allocated across several different expenditure categories within the Model. This was inconsistent with SPTL's Cost and Output reporting templates, wherein these costs are recognised as 100% load related capex expenditure.

<sup>1</sup> The "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work.

7. The Innovation Roll-out mechanism costs in the Model should have been 100% allocated to load related capex expenditure.
8. The Authority considers that it is necessary to modify the Model in the manner indicated, in order to enable clearer performance monitoring and to ensure that the Model is consistent with SPTL's Cost and Output Reporting template.
9. It is the view of the Authority that the proposed amendment of allocation percentages for SPTL's Innovation Roll-out mechanism expenditure is not likely to have a significant impact on any of the persons mentioned in SC 5A.4. This modification serves to reallocate the licensee's existing allowed expenditure with no net impact on either allowed expenditure or allowed revenue and is therefore not considered a significant modification under SC 5A.4.
10. This proposed modification has been agreed by SPTL and the Authority. Furthermore, the modification will have no impact on the other licensees and has been approved at the latest ET1 Price Control Financial Model Working Group meeting, held on 29 July 2019, the minutes of which are in the attached appendix, published alongside this notice.
11. The Authority proposes that these modifications will come into effect on 06 September 2019. This falls within the normal cut-off date for functional changes to the Model, that being 30 September (paragraph 1.13 of the Financial Handbook).<sup>2</sup>
12. Any representations to the proposed modifications should be made on or before 04 September 2019 either in writing to the Regulatory Finance team at Ofgem, 10 South Colonnade, Canary Wharf, London E14 4PU, or by email to [RegFinance@ofgem.gov.uk](mailto:RegFinance@ofgem.gov.uk).
13. Unless you mark your response confidential, we will publish it on our website, [www.ofgem.gov.uk](http://www.ofgem.gov.uk), and put it in our library. You can ask us to keep your response confidential, and we will respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004. If you want us to keep your response confidential, you should clearly mark your response to that effect and include reasons.
14. If the information you give in your response contains personal data under the General Data Protection Regulations 2016/379 (GDPR) and domestic legislation on data protection, the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. If you are including any confidential material in your response, please put it in the appendices.
15. We prefer to receive responses in electronic form so we can more easily place them on our website.



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**Steve McMahon**  
**Deputy Director, Electricity Distribution and Cross Sector Policy**  
**Duly authorised on behalf of the Gas and Electricity Markets Authority**  
**06 August 2019**

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<sup>2</sup> [https://www.ofgem.gov.uk/system/files/docs/2017/08/et1\\_handbook\\_-\\_v2.0.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/08/et1_handbook_-_v2.0.pdf)