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for energy consumers

To all holders of an electricity  
transmission licence and other  
interested stakeholders

Email: [NTIMailbox@ofgem.gov.uk](mailto:NTIMailbox@ofgem.gov.uk)

Date: 17 July 2020

Dear licensees and stakeholders

## **Consultation on a proposal to modify Special Condition 6I of National Grid Electricity Transmission's RII01 electricity transmission licence to implement the Hinkley-Seabank decision**

This letter is a consultation on our<sup>1</sup> proposed licence modifications to National Grid Electricity Transmission plc's ("NGET") RII01 electricity transmission licence (the "**licence**") to implement the decision of 22 May 2020 (the "**May decision**").<sup>2</sup> The May decision approved £514.7m of additional allowed expenditure (in 2009/10 prices) for the Hinkley-Seabank Strategic Wider Works ("**SWW**") project, NGET's technical solution for connecting EDF's Hinkley Point C nuclear power station in Somerset to the GB transmission network (the "**Hinkley-Seabank project**").

To implement the May decision, we propose to modify the licence by inserting an output and allowed expenditure for the Hinkley-Seabank project into **Special Condition 6I** (Specification of Baseline Wider Works Outputs and Strategic Wider Works Outputs and Assessment of Allowed Expenditure) of the licence. We also propose changing the way in which outputs are described in Table 3 of Special Condition 6I and to modify Part B of Special Condition 6I to make changes related to Cost and Output Adjusting Events set out in our May decision.

Further details of the project and the determination of the outputs and allowed expenditure are set out in our October 2019 consultation,<sup>3</sup> and the May decision. For ease of reference, the main points are summarised below.

If you wish to respond to this consultation, please do so on or before 14 August 2020. Please email your response to [NTIMailbox@ofgem.gov.uk](mailto:NTIMailbox@ofgem.gov.uk) or if you are unable to email your response, post your response to New Transmission Investment, Ofgem, 10 South Colonnade, Canary Wharf, London, E14 4PU.

### **Background on the Hinkley-Seabank project and summary of our May decision**

As detailed in the May decision, the Hinkley-Seabank project comprises:

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<sup>1</sup> References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

<sup>2</sup> [Decision on our project assessment for the Hinkley-Seabank electricity transmission project](#)

<sup>3</sup> [Hinkley - Seabank: Consultation on cost assessment](#)

- 49km of 400kV overhead lines – mostly using ‘T-Pylons’ rather than traditional lattice towers;
- 8.5km of underground cabling through the Mendip Hills Area of Outstanding Natural Beauty (AONB);
- construction of a new substation and a reconfiguration of two existing substations; and
- a reconfiguration of the local 132kV network.

In November 2018, NGET made a cost assessment submission (“**Project Assessment submission**”) to us for consideration under the SWW arrangements under Special Condition 6I for the Hinkley-Seabank project.

We consulted on our views on the Project Assessment submission in the October 2019 consultation. Having considered the responses we published our May decision setting out the reasons for our decision on cost allowances for the Hinkley-Seabank project. Further information can be found in our May decision, which states that we will:

- fund NGET to deliver the Hinkley-Seabank project through increasing NGET’s allowed expenditure by £514.7 million (in 2009/10 prices); and
- make changes related to NGET’s Cost and Output Adjusting Events for the Hinkley-Seabank project.

### **Proposed licence changes**

In order to give effect to the above decision, NGET’s licence needs to be modified. We therefore propose to modify Special Condition 6I of the licence. Below is an overview of the proposed modifications, including our rationale for these changes. The proposed modifications are set out in the appendix to this letter.

#### *Allowed expenditure, project output and form of description*

To ensure that NGET receives the appropriate funding for the Hinkley-Seabank project, in line with our May decision, we propose to include the Hinkley Seabank project as a SWW output within Table 3 of Special Condition 6I of the licence. This will incorporate two key factors – the allowed expenditure for the project and the technical outputs that we expect NGET to deliver.

As we have done for previous SWW projects, we propose inserting an annual expenditure profile into Table 3 of Special Condition 6I to ensure NGET receives the funding associated with the economic and efficient costs for the project in a timely manner. In line with the rest of the licence, these costs are presented in 2009/10 prices.

We also need to ensure that there is clarity in the licence of the output that is being delivered by NGET. The existing Table 3 in Special Condition 6I, indicates that the project output should be described as the increase in capacity along the relevant system boundary. We therefore propose amending Table 3 and introducing a new Table 5 to describe the project output to clearly indicate what must be delivered by NGET.

Currently, Special Condition 6I of the licence measures output through the transfer capability. We consider that such measurement can be impacted by other local works, we therefore propose that the output should be described by reference to the continuous rating of the various circuits that are being delivered by NGET as part of the Hinkley-Seabank project. The continuous ratings of the circuits will not be impacted by other local works in the same manner as the transfer capability across the boundary may be. This provides us with assurance that when NGET informs us that it has delivered the project, we will be able to quickly and effectively compare the outputs listed in the licence with what NGET informs us it has delivered. This would be more difficult if measured in terms of transfer capability

across the boundary due to the other local works that could impact those values. For future SWW projects, we will continue to ensure that the relevant licence reflects the most accurate and representative view of what is being delivered by each project.

To ensure that the continuous ratings included within the licence are accurate, we discussed the values with NGET and National Grid Electricity System Operator (NGESO). As part of this work, we identified a discrepancy between NGET and NGESO's expected values for the Hinkley-Seabank circuits. NGET identified this as an error in their reporting to NGESO. Following discussions with NGET and NGESO, we are comfortable that this was a non-material reporting error and it will not have an impact on the delivery of the Hinkley-Seabank project.

#### *Cost and output adjusting events*

Special Condition 6I includes a Cost and Output Adjusting Event (COAE) mechanism that provides for NGET to apply to recover costs associated with certain high impact, low probability (HILP) risks for an SWW project. We are proposing to amend Table 6 (formerly Table 5) in NGET's Special Condition 6I to activate this mechanism for the Hinkley-Seabank project.

We said in our May decision, that HILP risks and risks that are difficult to quantify up-front would be covered by a cost reopener mechanism instead of being funded upfront. We said this approach serves two purposes:

- It prevents consumers unnecessarily paying for risks which are highly unlikely to eventuate or are difficult to robustly quantify before they occur; and
- It provides NGET with comfort that if a high cost risk, that is beyond NGET's control, occurs, it would be funded for the efficient costs that it incurs relating to that risk (so long as costs are above a minimum threshold).

To implement this approach, we propose to modify the COAE mechanism in Special Condition 6I. Our proposed modifications to the COAE mechanism, which are set out in the appendices to this letter, cover the following:

- The inclusion of new 'qualifying' risks for the Hinkley-Seabank project. These are drawn from risks identified by NGET in its Project Assessment submission which we decided in our Decision should be eligible for this mechanism, as opposed to being funded up-front.
- Because some of the risks we are proposing to include within the scope of the modified COAE are likely to be of a lower value than the risks that were envisaged when the COAE provision was drafted, we propose to modify the provision to reduce the COAE threshold from 20% of total allowed project capex, to 10%.

This would mean that if one or more relevant qualifying risks occurs during the construction period, and the total cumulative cost impact was 10% or above the total project capital cost allowance, NGET would receive full funding for its efficient costs in relation to addressing those risks. If the risks occurred but the cost threshold was not met, NGET would need to use its up-front risk allowance to cover the risk costs, and any overspend would be treated through the standard RIIO sharing factor (ie, split between NGET and consumers).

Owing to a drafting error, our May decision document stated that our modifications to the COAE provision would cover risks for the Hinkley-Seabank project "in addition" to the three risks covered by the existing COAE provision – ie, extreme weather; the imposition of additional terms or conditions of any statutory consent, approval or permission; and unforeseen ground or sea-bed conditions. That statement did not accurately reflect our Decision. In fact, our Decision is that of these three existing risks, only extreme weather will be included in the list of risks eligible for the COAE mechanism for HSB. That is

because, we will be providing NGET with an efficient up-front allowance in relation to the other two risks for the Hinkley-Seabank project.

### **Next Steps**

We invite comments and views on the proposed modifications as set out in draft within the appendix to this consultation. If you wish to respond to this consultation, please do so on or before 14 August 2020. Please email your response to [NTIMailbox@ofgem.gov.uk](mailto:NTIMailbox@ofgem.gov.uk), or if you are unable to email your response, please post your response to New Transmission Investment, Ofgem, 10 South Colonnade, Canary Wharf, London, E14 4PU.

Yours faithfully,

**James Norman**

**Head of New Transmission Investment  
Systems & Networks  
10 South Colonnade  
Canary Wharf  
London E14 4PU**

## Appendix 1 – proposed licence modifications

The entirety of Special Condition 6I of NGET’s licence is presented below. Proposed new text is shown in double-underlined blue text and deletions are shown in ~~strikethrough red text~~.

### **Special Condition 6I. Specification of Baseline Wider Works Outputs and Strategic Wider Works Outputs and Assessment of Allowed Expenditure**

#### **Introduction**

6I.1 The purposes of this condition are:

- (a) to specify the Baseline Wider Works Outputs and Strategic Wider Works Outputs that the licensee must Deliver during the Price Control Period and the Allowed Expenditure associated with those outputs; and
- (b) to determine and direct any appropriate revisions to PCFM Variable Values relating to adjustments to Wider Works Allowed Expenditure (WWE values) and the Relevant Years to which those revised WWE values relate for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in Special Condition 5B (Annual Iteration Process for the ET1 Price Control Financial Model).

6I.2 The WWE value relating to a particular Relevant Year, is the amount of Allowed Expenditure (in 2009/10 prices) for all Strategic Wider Works Outputs and for the Baseline Wider Works Output associated with the Western High Voltage Direct Current (WHVDC) link (“WHVDC Output”), for that Relevant Year as determined in accordance with this condition.

6I.3 The application of the mechanisms set out in this condition provides for:

- (a) the specification of Baseline Wider Works Outputs;
- (b) the approval and specification of Strategic Wider Works Outputs;
- (c) the amendment of Baseline Wider Works Outputs and Strategic Wider Works Outputs in the context of an Output Amendment for changes in system background as set out in Part D of this condition;
- (d) the approval of changes to Allowed Expenditure in respect of Strategic Wider Works Outputs and for the WHVDC Output for particular Relevant Years in the context of a Cost and Output Adjusting Event, as specified in Part B of this condition;
- (e) the determination and direction of revised WWE values to reflect changes to Allowed Expenditure so that, as a consequence of the Annual Iteration Process, the value of the term MOD as calculated for Relevant Year t for the

purposes of Part C of Special Condition 3A (Restriction of Transmission Network Revenue) will result in an adjustment of the licensee's Base Transmission Revenue in a manner that:

- (i) reflects approved changes to Allowed Expenditure for Strategic Wider Works Outputs and for the WHVDC Output specified in this condition, and
- (ii) takes account of approved changes to Allowed Expenditure for Strategic Wider Works Outputs and for the WHVDC Output specified in this condition for the purposes of the Totex Incentive Mechanism Adjustment as set out in Part B of Special Condition 6C (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – Transmission Owner) and in accordance with the methodology set out in Chapter 6 of the ET1 Price Control Financial Handbook.

6L.4 This condition should be read and construed in conjunction with Special Condition 5B, and Special Condition 5A (Governance of ET1 Price Control Financial Instruments).

#### **Part A: Specification of Baseline Wider Works and Strategic Wider Works Outputs**

6L.5 Table 1 of this condition sets out details of the Baseline Wider Works Outputs that the licensee is required to Deliver during the Price Control Period and Allowed Expenditure for Delivering those outputs that have been determined at the outset of the Price Control Period.

6L.6 The Allowed Expenditure set out in Table 1 of this condition have been reflected in:

- (a) the licensee's Opening Base Revenue Allowance, set against the licensee's name in Appendix 1 to Special Condition 3A;
- (b) IWW values (defined in Special Condition 6J (Allowed Expenditure for Incremental Wider Works Outputs) contained in the PCFM Variable Values Table for the licensee contained in the ET1 Price Control Financial Model as at 1 April 2013 (the Allowed Expenditure for Baseline Wider Works Outputs 1 to 3 in Table 1 of this condition have been reflected in IWW values); and
- (c) WWE values contained in the PCFM Variable Values Table for the licensee contained in the ET1 Price Control Financial Model as at 1 April 2013 (the Allowed Expenditure for the WHVDC Output specified in Table 1 of this condition have been reflected in WWE values).

Table 2 of this condition provides supplementary information on the funding arrangements for the WHVDC Output which the licensee is developing jointly with SP Transmission Ltd. Table 2 of this condition sets out the total Allowed Expenditure determined by the Authority for the project as a whole and for the licensee, including efficient costs determined for the Relevant Years commencing 1 April 2011 and 1 April 2012 as reflected in Special Condition 6B (Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period). It also sets out the costs allocation ratio to apply to the share of expenditure that is made by the licensee as set out in Ofgem's 27 July 2012 decision letter on WHVDC funding arrangements ("WHVDC Decision Letter").



Output description	Allowed Expenditure								
	£m (2009/10 prices)								
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Total for Price Control Period
Boundary: B7a Starting transfer capacity: 4,900MW Additional transfer capacity: 400MW Delivered transfer capability: 5,300MW <b>Delivery required 2014/15</b>									
<b>4. Western HVDC Output</b> Boundary: B6 Starting transfer capacity: 2,200MW Additional transfer capacity: 2,250MW (2,400MW short term rating) Delivered transfer capability: 6,550MW (6,700 short-term rating) B7: 2,200 / 2,250 (2,400) / 5,650 (5,800) B7a: 4,900 / 2,250 (2,400) / 7,550 (7,700) <b>Delivery required 2016/17</b>	161.700	230.400	208.900	20.100	0.0	0.0	0.0	0.0	621.100



**Table 2: Supplementary information in respect of the WHVDC Link**

Allowed Expenditure for WHVDC Link £m (2009/10 prices)	Cost allocation ratio	Prior to Price Control Period		Price Control Period								Total
		2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	
<b>NGET</b>	68.5%	15.5	83.0	161.7	230.4	208.9	20.1	0.0	0.0	0.0	0.0	719.7
<b>PROJECT TOTAL</b>		<b>22.7</b>	<b>121.2</b>	<b>236.0</b>	<b>336.4</b>	<b>305.0</b>	<b>29.4</b>	0.0	0.0	0.0	0.0	<b>1050.7</b>

- 6I.7 During the Price Control Period the licensee can request that the Authority approve Allowed Expenditure for Strategic Wider Works Outputs. These are additional to the Baseline Wider Works Outputs specified in Table 1 of this condition.
- 6I.8 All Strategic Wider Works Outputs will be deemed to be specified in Table 3 of this condition following determination by the Authority in accordance with Part F of this condition.
- 6I.9 Where the licensee undertakes to develop Strategic Wider Works Outputs with another TO, supplementary information in respect of the determination by the Authority on those Strategic Wider Works Outputs will be deemed to be specified in Tables 4 and [56](#) of this condition. This will include the total Allowed Expenditure for the whole of the Strategic Wider Works Output and for the licensee, as well as the cost allocation methodology for the share of expenditure to be made by the licensee in respect of a particular Strategic Wider Works Output.

**Table 3: Strategic Wider Works Outputs**

Output description	Allowed Expenditure £m (2009/10 prices)													
	<u>Price control period</u>								<u>Post-price control period</u>					
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	<u>2021/22</u>	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	Total
Output identifier: <a href="#">Hinkley-Seabank Output</a> Boundary (Sub-boundary): <a href="#">B13</a> <a href="#">Technical deliverables are specified in Table 5</a> Transfer capability before output: <del>XXX MW</del> Output to be delivered: <del>XXX MW</del> additional thermal/voltage/stability capability Transfer capability after output: <del>XXX MW</del> Delivery required: <a href="#">end Q3 201X/1X</a> <del>24/25</del>	<u>4.100</u>	<u>10.453</u>	<u>10.432</u>	<u>2.568</u>	<u>6.994</u>	<u>17.831</u>	<u>58.270</u>	<u>123.248</u>	<u>102.358</u>	<u>94.161</u>	<u>59.407</u>	<u>13.633</u>	<u>11.198</u>	<u>514.652</u>

**Table 4: Supplementary information for Strategic Wider Works Outputs for which provisions on joint delivery apply**

Allowed Expenditure for output name £m (2009/10 prices)	Cost allocation methodology	Price Control Period							Post Price Control Period		Total
		2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	
NGET share											
<b>TOTAL</b>											

**Table 5: Technical deliverables for the Hinkley-Seabank Output**

<u>Reference 1</u>	<u>Reference 2</u>	<u>Route code</u>	<u>Pre-fault continuous rating (MVA)</u>			<u>Post-fault continuous rating (MVA)</u>		
			<u>Winter</u>	<u>Spring/Autumn</u>	<u>Summer</u>	<u>Winter</u>	<u>Spring/Autumn</u>	<u>Summer</u>
<u>Sandford</u>	<u>Seabank</u>	<u>LD</u>	<u>2680</u>	<u>2570</u>	<u>2400</u>	<u>3190</u>	<u>3060</u>	<u>2850</u>
<u>Hinkley Point</u>	<u>Sandford</u>	<u>LD</u>	<u>2680</u>	<u>2570</u>	<u>2400</u>	<u>3190</u>	<u>3060</u>	<u>2850</u>
<u>Hinkley Point</u>	<u>Shurton</u>	<u>JP</u>	<u>2610</u>	<u>2560</u>	<u>2490</u>	<u>3100</u>	<u>3050</u>	<u>2960</u>
<u>Tower VQ1</u>	<u>Tower VQ43</u>	<u>VQ</u>	<u>2610</u>	<u>2560</u>	<u>2490</u>	<u>3100</u>	<u>3050</u>	<u>2960</u>
<u>Tower VQ43</u>	<u>Bridgewater</u>	<u>VQ</u>	<u>1710</u>	<u>1620</u>	<u>1480</u>	<u>2030</u>	<u>1930</u>	<u>1770</u>
<u>VQ Route</u>	<u>ZG Route</u>	<u>ZGA</u>	<u>2680</u>	<u>2570</u>	<u>2400</u>	<u>3190</u>	<u>3060</u>	<u>2850</u>
<u>Shurton</u>	<u>Taunton</u>	<u>ZZ</u>	<u>2040</u>	<u>1960</u>	<u>1820</u>	<u>2420</u>	<u>2330</u>	<u>2170</u>

6I.10 The licensee must report annually to the Authority on progress made in Delivering the outputs specified in Tables 1 and 3 of this condition along with information on its actual expenditure incurred in accordance with the RIGs.

**Part B: Cost and Output Adjusting Events**

6I.11 This Part B (which should be read in conjunction with Part C of this condition) provides for a Cost and Output Adjusting Event (COAE) to have effect in relation to the outputs specified in Table 56 in this Part B.

**Table 56: Outputs specified in this condition eligible for COAE**

Output name	Relevant total Allowed Expenditure (£m, 2009/2010 prices)	Joint or licensee only Delivery
WHVDC Baseline Output	£1050.7	Joint - SP Transmission Ltd
<a href="#">Hinkley-Seabank Output</a>	<a href="#">514.7</a>	<a href="#">Licensee only</a>

6I.13 For the purposes of this condition, a COAE arises where the Authority is satisfied that:

- (a) a pre-defined exceptional event, or, in the case of the Hinkley-Seabank Output, one or more pre-defined exceptional events, as defined in paragraph 6I.14 of this condition, has occurred that the licensee could not have reasonably foreseen and/or economically or efficiently planned a contingency for;
- (b) the single pre-defined exceptional event, or, in the case of the Hinkley-Seabank Output, the cumulative impact of any one or more pre-defined exceptional events, has resulted in a change to the scope of construction works required to Deliver the output and will cause expenditure relative to the relevant total Allowed Expenditure specified in Table 56 of this condition to be incurred or saved and that the difference before the application of the Totex Incentive Strength Rate will be no less than:
  - (i) 20% for a Strategic Wider Works Output (in nominal values); ~~or~~
  - (ii) 10% in the case of the WHVDC Output (in nominal values); or
  - (iii) 10% in the case of the Hinkley-Seabank Output (in nominal values);
- (c) the difference in expenditure:
  - (i) is expected to be efficiently incurred or saved; and
  - (ii) cannot otherwise be recovered under the revenue allowances provided by this condition or by or under any other provision within this licence;

6I.14 In paragraph 6I.13, ~~“a pre-defined exceptional event” is limited to the following:~~

- (a) except for the purposes of the Hinkley-Seabank Output, “a pre-defined exceptional event” is limited to the following:

- (i) extreme weather events (meaning a worse than 1 in 10 probability for land-based activity, and equivalent provisions for marine-based activity);
  - (ii) the imposition of additional terms or conditions of any statutory consent, approval or permission (including but not limited to planning consent); or
  - (iii) unforeseen ground or sea-bed conditions; and
- (b) for the purpose of the Hinkley-Seabank Output, “a pre-defined exceptional event” is limited to the following:
- (i) extreme weather events or widespread flooding (meaning a worse than 1 in 10 probability);
  - (ii) any of the following circumstances directly attributable to the United Kingdom’s withdrawal from the European Union:
    - a. delays to the provision to the licensee of project materials;
    - b. legislative or regulatory changes including changes to the rate of VAT; and
    - c. foreign exchange movement;
  - (iii) a livestock epizootic;
  - (iv) a project contractor, supplier or manufacturer enters into liquidation during the project delivery phase;
  - (v) significant protestor action (resulting in greater than 14 days of delays in each instance);
  - (vi) a legal challenge to the procurement process by a prospective contractor;  
or
  - (vii) a terrorist attack.

6I.15 For the purposes of paragraph 6I.14(a) of this condition, the Authority will take into account any additional considerations provided in the WHVDC Decision Letter or that may be identified in the Authority’s determination on a particular Strategic Wider Works Output as to the nature of expenditure to be taken into account by the Authority in its consideration of whether a COAE has arisen.

6I.16 In paragraph 6I.13 of this condition, “change to the scope of construction works” means a change that is necessary to the scope and/or scale of those works as a result of a single pre-defined exceptional event in respect of an output set out in Table 56 of this condition.

### **Part C: Assessment of COAE**

6I.17 This Part C sets out a procedure that is to be applied for the purposes of enabling the Authority:

- (a) to assess whether a COAE has occurred; and, if so,
- (b) to determine the adjustment that is to be made because of it.

#### **(i) Licensee’s notice to the Authority**

6I.18 Where the licensee considers, and can provide supporting evidence, that a COAE has occurred in relation to an output specified in Table 56 in Part B of this condition, it must give notice of that event to the Authority as soon as is reasonably practicable after that event has occurred, and in any event within three months after the end of the Relevant Year in which it occurred (or by such later date as the Authority may notify to the licensee).

6I.19 A notice under paragraph 6I.18 of this condition must:

- (a) be a joint submission with the relevant Transmission Licensees if the notice is in relation to an output specified as being Joint Delivery in Table 56 of Part B to this condition, and set out the change of costs for the output as a whole with reference to the cost allocation methodology set out in the relevant decision letter or SWW determination or a proposal for this if it has not been decided;
- (b) set out the reasons for the request, along with a description of the pre-defined exceptional event specified in Part B to this condition to which the notice relates and why the licensee considers it to be a COAE;
- (c) comply with any relevant requirements the Authority may have set in relation to the COAE provisions in its WHVDC Decision letter or when making its determination on a Strategic Wider Works Output;
- (d) describe progress made in relation to its original project plans for the Delivery of the WHVDC Output or a Strategic Wider Works Output as specified in Part A of this condition;
- (e) describe the requested changes in Part A of this condition and where appropriate to Table 67 in Part G of this condition;
- (f) specify the costs that the licensee expects to be incurred or saved by the COAE, and explain how the amount of those costs has been calculated including relevant evidence on the change to the scope of the construction works;
- (g) provide revised project development plans, design works, forecast costs for the affected project cost items, cost breakdowns for the affected project cost items, annual expenditure profiles, and the construction programme;
- (h) specify whether the licensee expects the COAE to have an impact on the timeline for the Delivery of the WHVDC Output or Strategic Wider Works Output and explain what actions it has or will take to mitigate the impact of the event on the scheduled Delivery date;
- (i) specify any other changes to the output specified in Part A of this condition that the licensee considers necessary as a consequence of the event, and explain how those changes have been calculated;
- (j) describe why the licensee considers that the relevant costs cannot otherwise be recovered under the revenue allowances provided by this condition or by or under any other provision of this licence;
- (k) confirm that none of the costs that are the subject of the notice has been, or will be, notified to the Authority in relation to any other revenue recovery arrangements in this licence; and
- (l) include any other analysis or information that the licensee considers may be relevant to the Authority's consideration of its request.

6I.20 The notice must also contain or be accompanied by:

- (a) details of any relevant calculations of the licensee in which revised expenditure or output specifications have been estimated, and any relevant supporting information;
- (b) a statement procured from independent technical advisers that assess whether or not amendments in relation to the scope of the works, the costs and Delivery timing fairly reflect the effects of the pre-defined exceptional event;

## **(ii) Determination by the Authority**

6I.21 Where the Authority receives notice from the licensee under paragraph 6I.18 to this condition, it will determine in a manner so as to facilitate the timely Delivery of the WHVDC Output or SWW Outputs:

- (a) whether a COAE has occurred in relation to an output that is specified in Table ~~5~~6 of Part B of this condition; and
- (b) whether the output will remain economical and efficient as a consequence of the pre-defined exceptional event; and
- (c) subject to paragraph 6I.21(a) and (b) of this condition, the adjustment that is to be given effect through a modification under Part G of this condition in relation to the relevant total Allowed Expenditure specified for the output in Table ~~5~~6 of this condition, including where relevant the COAE for the project as a whole if the relevant project is specified as being Joint Delivery and apportioning this to the licensee where appropriate with reference to the methodology set out in the relevant decision letter or SWW Output determination.

6I.22 Where the Authority determines under paragraph 6I.21 of this condition that each of sub-paragraphs (a) and (b) is satisfied, the adjustment that it determines under sub-paragraph (c) of paragraph 6I.21 must be such as to ensure that the financial position and performance of the licensee will, so far as is reasonably practicable, remain the same as if the COAE had not occurred.

## **(iii) Revocation**

6I.23 The Authority may, with the consent of the licensee, revoke a determination made under paragraph 6I.21 of this condition.

## **Part D: Amendments for Changes in System Background**

6I.24 This Part (which should be read in conjunction with Part E of this condition) provides for an Output Amendment (OA) to have effect in relation to Baseline Wider Works Outputs and Strategic Wider Works Outputs specified in Tables 1 or 3 in Part A of this condition.

6I.25 For the purposes of this condition, an OA arises where the Authority is satisfied that:

- (a) there have been changes in the system background compared with the assumptions used initially to model and specify a Baseline Wider Works Output or a Strategic Wider Works Output in Tables 1 or 3 in Part A of this condition.
- (b) those changes will directly result in a difference between:
  - (i) the capacity increase of the Baseline Wider Works Output or Strategic Wider Works Output in Tables 1 or 3 in Part A respectively;
  - (ii) the achievable capacity increase; and
- (c) amending the Baseline Wider Works Output or Strategic Wider Works Output with a revised capacity increase based on the new information about the system background has no implications for the Allowed Expenditure specified in Tables 1 or 3 in Part A of this condition respectively.

6I.26 In paragraph 6I.25 of this condition, “changes in the system background” mean unforeseen changes in the generation and demand background.

## **Part E: Assessment of OA**



6I.27 This Part E sets out a procedure that is to be applied for the purposes of enabling the Authority:

- (a) to assess whether a Baseline Wider Works Output and a Strategic Wider Works Output specified in Tables 1 or 3 in Part A of this condition requires an OA (within the meaning of Part D) as a direct result of changes in the system background; and, if so,
- (b) to determine the OA to the Baseline Wider Works Output or the Strategic Wider Works Output that is to be made because of those changes.

**(i) Licensee's notice to the Authority**

6I.28 Where the licensee considers, and can provide supporting evidence, that changes in the system background compared with the initial assumptions used to specify a Baseline Wider Works Output or a Strategic Wider Works Output as set out in Tables 1 or 3 in Part A of this condition has had an impact on the description of a Baseline Wider Works Output or a Strategic Wider Works Output, it must give notice to the Authority as soon as is reasonably practicable, and in any event within three months after the end of the Relevant Year in which the Baseline Wider Works Output or the Strategic Wider Works Output was Delivered (or by such later date as the Authority may notify to the licensee).

6I.29 A notice under paragraph 6I.28 of this condition must include:

- (a) a description of the Baseline Wider Works Output or the Strategic Wider Works Output to which the notice relates;
- (b) a progress report in relation to Delivery of the Baseline Wider Works Output or the Strategic Wider Works Output to which the notice relates;
- (c) the reasons for the requested adjustment, along with relevant supporting evidence of the changes in the system background to which the notice relates and why the licensee considers that those changes have directly resulted in a difference between the achievable description of outputs and the relevant description of outputs specified in Tables 1 or 3 in Part A of this condition; and
- (d) a statement that an amendment to the description of outputs for the relevant Baseline Wider Works Output or Strategic Wider Works Output based on the revised system background would not have implications for the Allowed Expenditure for Delivering that output.

6I.30 The notice must also contain or be accompanied by:

- (a) consideration of whether the amendment to the description of outputs for the relevant Baseline Wider Works Output or Strategic Wider Works Output set out in the notice has any implications for other Baseline Wider Works Output or Strategic Wider Works Outputs specified in Tables 1 or 3 in Part A of this condition; and
- (b) any other analysis or information that the licensee considers relevant to the Authority's assessment of the event.

**(ii) Determination by the Authority**

6I.31 Where the Authority receives notice from the licensee under paragraph 6I.28 of this condition, it will determine:

- (a) whether an amendment to the description of outputs for the relevant Baseline Wider Works Output or Strategic Wider Works Output as set out in the notice is a direct result of changes in the system background; and, if so,
- (b) the adjustment that is to be given effect through a modification under Part F of this condition in relation to the description of outputs for the relevant Baseline Wider Works Output or Strategic Wider Works Output.

### **(iii) Revocation**

6I.32 The Authority may, with the consent of the licensee, revoke a determination made under paragraph 6I.31 of this condition. [56](#)

## **Part F: Modification to amend the details of existing Baseline Wider Works Outputs or Strategic Wider Works Outputs or to approve additional Strategic Wider Works Outputs**

6I.33 The Authority may direct modifications to Tables 1 to [45](#) in Part A, Table [56](#) in Part B and, where applicable to Table [67](#) in Part G of this condition in order to:

- (a) amend the details of Baseline Wider Works Outputs or Strategic Wider Works Outputs specified in Tables 1 to [45](#) in Part A of this condition; or
- (b) add details, including the amount of Allowed Expenditure, of additional Strategic Wider Works Outputs for inclusion in Tables [3](#) and ~~Table 4~~ [to 5](#) (if applicable) in Part A, Table [56](#) in Part B, and Table [67](#) in Part G of this condition, by applying the provisions of this Part F.

6I.34 A direction under paragraph 6I.33(a) of this condition may arise from:

- (a) a COAE defined in Part B of this condition and determined by the Authority in accordance with Part C of this condition; or
- (b) an OA defined in Part D of this condition and determined by the Authority in accordance with Part E of this condition.

6I.35 A direction issued by the Authority under paragraph 6I.33 of this condition is of no effect unless the Authority has first:

- (a) given notice to interested parties that it proposes to issue a direction under paragraph 6I.33 of this condition:
  - (i) specifying the date on which it proposes that the direction should take effect;
  - (ii) specifying, where appropriate, any output and/or Allowed Expenditure adjustments that have been determined in accordance with Part C, Part E and Part F of this condition; and
  - (iii) specifying the time (which must not be less than a period of 28 days within which representations concerning the proposed direction may be made; and

- (b) considered any representations in response to the notice that are duly made and not withdrawn.

**(i) Licensee's notice to the Authority in respect of new Strategic Wider Works Outputs**

6I.36 Where the licensee proposes to request that the Authority specify a new Strategic Wider Works Output then it must give notice to the Authority in such form as the Authority may from time to time require.

6I.37 The licensee must provide notice of such a request in accordance with the timeline set out in Final Proposals and in reasonable timescales for the Authority to conduct its assessment in accordance with the timeline set out in Final Proposals or as amended by the Authority in further guidance it may issue from time to time (or by such alternative date as the Authority may notify to the licensee).

6I.38 A notice under paragraph 6I.36 of this condition must contain:

- (a) a description of the proposed Strategic Wider Works Output and requested Allowed Expenditure for each Relevant Year, including evidence that the proposed output meets the materiality criteria set out by the licensee in the licensee's Network Development Policy in accordance with Part B of Special Condition 6J (Allowed Expenditure for Incremental Wider Works);
- (b) the reasons for the request, including the associated needs case and cost-benefit analysis for the Strategic Wider Works Output and Delivery timescales; This should include all relevant supporting analysis, such as any analysis undertaken by the system operator. In the event of any difference between the needs case and the analysis produced by the system operator, an explanation of the difference and any associated implications must be provided; and
- (c) a planned submission timetable for further information that the licensee considers relevant to the Authority's assessment of the request, taking into account any guidance that may be issued by the Authority for this purpose from time to time.

6I.39 For the purposes of paragraph 6I.38(c) of this condition, relevant information is expected to include, without limitation:

- (a) a specification of the potential risks associated with Delivery and ongoing operation of the proposed Strategic Wider Works Output as well as relevant supporting information on the licensee's risk management strategy and the efficiency of its risk sharing arrangements with consumers;
- (b) a description of the licensee's Delivery plans including a project assessment timeline, project development plans, planning consent details and status, details of the construction programme, and a scheduled completion date.
- (c) evidence of efficient costs including information on detailed design works, the licensee's supplier procurement and tender procedures, forecast costs on a year by year basis, and a breakdown of the forecast costs;
- (d) a description of the additional Strategic Wider Works Output in the form set out in Table 3 in Part A of this condition; and
- (e) any other analysis or information that the licensee considers may be relevant to the Authority's consideration of its request.

## (ii) Determination by the Authority

6I.40 Where the Authority receives notice from the licensee under paragraph 6I.36 of this condition in relation to an additional Strategic Wider Works Output, it may seek any other analysis or information that the Authority considers relevant to the Authority's assessment of the request and may specify timescales for provision of this information such that it may be taken into account by the Authority for the purposes of reaching a determination under this paragraph. Subject to timely provision of such information by the licensee, and following consultation with such other parties as the Authority considers may be affected by its determination, the Authority will then determine:

- (a) whether the needs case, technical scope and timing of Delivery are sufficiently well justified and represent long term value for money for existing and future consumers;
- (b) whether the licensee has developed a sufficiently robust development plan and risk sharing arrangements to Deliver the output efficiently; and
- (c) whether there is a sufficiently advanced technical option(s) for the Authority to assess efficient costs and specify a Strategic Wider Works Output; and if so
- (d) the adjustment that is to be given effect through a modification under this Part F.

## (iii) Revocation

6I.41 The Authority may, after consulting the licensee, revoke a determination made under paragraph 6I.40 of this condition.

## Part G: Determination of revisions to WWE values

6I.42 This Part sets out the process for issuing revisions to WWE values for use in the Annual Iteration Process for the ET1 Price Control Financial Model.

6I.43 Table 67 of this condition sets out the amounts of Allowed Expenditure for Strategic Wider Works Output or the WHVDC Output after any modifications directed under Part F of this condition and the total of those amounts for each Relevant Year of the Price Control Period.

**Table 67: WWE values after modifications under Part F**

£m (2009/10 prices)	Relevant Year							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
output name								
WWE total								

6I.44 The Authority will, by 30 November in each Relevant Year t-1, or as soon as reasonably practicable thereafter ascertain whether the WWE value for any Relevant Year is different from the Allowed Expenditure total for the corresponding Relevant Year set out in Table 67 of this condition and, in any case where it is different, the Authority will:

- (a) determine that the WWE value for the Relevant Year concerned is to be revised so as to be the same as the Allowed Expenditure total in Table 67 of this condition; and
- (b) issue a direction, in accordance with the provisions of Part H of this condition specifying any revised WWE values determined under sub-paragraph (a) and the Relevant Years to which they relate.

#### **Part H: Procedure for direction of revised WWE values by the Authority**

6I.45 Any revised WWE values determined by the Authority in accordance with Part G of this condition will be directed by the Authority by 30 November or as soon as reasonably practicable thereafter in each Relevant Year t-1.

6I.46 A direction issued by the Authority under paragraph 6I.45 of this condition will be of no effect unless the Authority has first:

- (a) given notice to interested parties that it proposes to issue a direction under paragraph 6I.45 of this condition:
  - (i) specifying the date on which it proposes that the direction should take effect;
  - (ii) stating, where appropriate, that any WWE values have been determined in accordance with Part G of this condition (as appropriate); and
  - (iii) specifying the time (which must not be less than a period of 14 days) within which representations concerning the proposed direction may be made; and
- (b) considered any representations in response to the notice that are duly made and not withdrawn.

6I.47 Where the Authority directs any revised WWE values relating to Relevant Years which are earlier than Relevant Year t (following the date of the direction), the effect of using those revised WWE values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt, no previously directed value of the term MOD will be retrospectively affected.

6I.48 If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised WWE values by 30 November, or as soon as reasonably practicable thereafter, then no revised WWE values will be used in the Annual Iteration Process that is required by Special Condition 5B to be undertaken by the Authority by 30 November in that same Relevant Year t-1, and the Authority will take full account of the position when determining and directing any revised WWE values in respect of the next Annual Iteration Process.