

**To:**

National Grid Electricity Transmission plc  
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WC2N 5EH  
Great Britain

SP Transmission Ltd  
Company number SC189126  
1 Atlantic Quay  
Robertson Street  
Glasgow  
G2 8SP  
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Scottish Hydro Electric Transmission plc  
Company number SC213461  
Inveralmond House  
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Perthshire  
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Great Britain

**Modification of the special conditions of the licences held by onshore electricity transmission licensees and reasons for decisions pursuant to sections 11A and 49A of the Electricity Act 1989**

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

1. Whereas each of the companies to whom this document is addressed (together "the Licence Holders") operates an onshore electricity transmission network and is the holder of an electricity transmission licence ("the Licence") granted or treated as granted under 6(1)(b) of the Electricity Act 1989 ("the Act").
2. In accordance with section 11A(2) of the Act, the Gas and Electricity Markets Authority ("the Authority") gave notice on 24 July 2013 ("the Notice") that it proposed to make modifications to the Special Conditions of the Licence by:
  - (a) amending the ET1 Price Control Financial Handbook ("the handbook") that forms part of Special Condition 5A (Governance of ET1 Price Control Financial Instruments); and
  - (b) amending the ET1 Price Control Financial Model ("the PCFM") that forms part of Special Condition 5A.
3. The Notice specified that any representations concerning the proposed modifications were required to be made on or before 30 August 2013.
4. In accordance with section 11A(4)(b) of the Act, the Authority gave notice that it proposed to make the modifications to the Secretary of State on 24 July 2013 and has not received a direction not to make the modifications.

5. Prior to the close of the consultation period in respect of the Notice, the Authority received one response. All non-confidential responses have been placed on the Ofgem website.
6. The Authority has carefully considered all the representations received and, as a result, considers it necessary to make a number of changes to the proposed modifications set out in the Notice for the purpose of correcting minor inaccuracies and improving the clarity of the drafting. The changes referred to in this paragraph have been highlighted in Appendix 2 of this Modification (see paragraph 11 below)
7. The reasons for the modifications to the handbook referred to in paragraph 2(a) and the minor additional modifications referred to in paragraph 6 are:
  - (a) to make changes required as a consequence of a separate modification to Special Condition 6H (Arrangements for the recovery of uncertain costs) of the electricity transmission licence held by SP Transmission Ltd that will introduce a new adjustment category for uncertain costs relating to non-load related works;
  - (b) to make changes required as a consequence of a separate modification to Special Condition 6H (Arrangements for the recovery of uncertain costs) of the electricity transmission licence held by Scottish Hydro Electric Transmission plc that will introduce a new adjustment category for uncertain costs relating to exceptional subsea cable faults;
  - (c) to confirm that claw back adjustments to tax liability allowances for the Licence Holders include an iterative ('tax allowance on tax allowance') factor; and
  - (d) to make a number of other corrections and clarifications throughout the handbook so that it is fully consistent with the Authority's Final Proposals for the RIIO-T1 price control that applies to the Licence Holders.
8. The reasons for proposing the modifications to the PCFM referred to in paragraph 2(b) and the minor additional modifications referred to in paragraph 6 are:
  - (a) to add new input rows to the PCFM Variable Values Table, as defined in Special Condition 1A (Definitions and Interpretation) of the licence, relating to the new adjustment categories referred to in paragraph 7(a) and (b);
  - (b) to ensure that claw back adjustments to tax liability allowances for relevant licence holders include an iterative ('tax allowance on tax allowance') factor; and
  - (c) to make a number of other amendments and corrections to reflect the proposed modifications to the handbook referred to in paragraph 7,  
so that correctly calculated values for the term MOD, as used in the formula for Base Transmission Revenue set out in Special Condition 3A (Restriction on Transmission Network Revenue), and having the meaning given in that condition, are produced for the licensee under the Annual Iteration Process for the PCFM.
9. The effect of the modifications including the minor additional modifications referred to in paragraph 6 will be to amend the handbook and PCFM to:
  - (a) introduce adjustment mechanisms and new PCFM Variable Values relating to:
    - (i) non-load related works for SP Transmission Ltd; and
    - (ii) exceptional subsea cable faults for Scottish Hydro Electric Transmission plc;

- (b) include an iterative ('tax allowance on tax allowance') factor for claw back adjustments to tax liability allowances for the Licence Holders; and
  - (c) apply a range of corrections, clarifications and consequential changes, so that the Authority's Final Proposals for RIIO-T1 are properly implemented.
10. Where an application to the Competition Commission under section 11C of the Act for permission to appeal the Authority's decision is made, Rule 5 of the Energy Licence Modification Appeals Rules sets out the requirements relating to notice of appeal, including matters required in Rule 5.2. For the purposes of Rule 5.7, 'relevant licence holder' has the same meaning as in section 11A of the Act. A list of relevant licence holders in relation to this modification decision is set out in Appendix 1 to this Modification.
11. Separate Appendix 2 to this Modification shows the modifications to the handbook as marked-up text on a copy of the handbook with the minor additional changes referred to in paragraph 6 shown in yellow highlight.
12. Separate Appendices 3 and 4 to this Modification consist of, respectively:
- (a) a report setting out setting out the modifications to the PCFM; and
  - (b) a copy of the PCFM incorporating the modifications.
13. Copies of this Modification and other documents referred to in it are available on the Ofgem website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)).

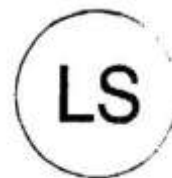
**Now therefore**

In accordance with the powers contained in section 11A(1)(a) of the Act and for the reasons set out in paragraphs 7 and 8 of this Modification, the Authority hereby modifies:

- (a) the ET1 Price Control Financial Handbook in the manner specified in separate Appendix 2, with additions and deletions shown as marked-up text; and
- (b) the ET1 Price Control Financial Model in the manner specified in separate Appendices 3 and 4.

The modifications will take effect on and from 27 November 2013.

This document constitutes notice of the reasons for the decision to modify the Licence as required by section 49A of the Act.



A handwritten signature in blue ink, appearing to read 'Kersti Berge', positioned above a dotted line.

**Kersti Berge**  
**Partner, Electricity Transmission**  
**Duly authorised on behalf of the**  
**Gas and Electricity Markets Authority**

**27 September 2013**

**Appendix 1 to the Authority's Modification dated 27 September 2013 –  
Relevant licence holders**

<b>Special Conditions subject to modification</b>	<b>Relevant licence holders  (in respect of the modification of the Special Condition in their particular licence)</b>
Special Condition 5A (Governance of ET1 Price Control Financial Instruments): <ul style="list-style-type: none"><li>- ET1 Price Control Financial Handbook</li><li>- ET1 Price Control Financial Model</li></ul>	National Grid Electricity Transmission plc SP Transmission Ltd  Scottish Hydro Electric Transmission plc