

To:

SP Transmission Ltd
Company number SC189126
1 Atlantic Quay
Robertson Street
Glasgow
G2 8SP
Great Britain

Modification of special conditions 6H and 1A of the electricity transmission licence held by SP Transmission Ltd and reasons for decisions pursuant to sections 11A and 49A of the Electricity Act 1989

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

1. Whereas SP Transmission Ltd ("the Licence Holder") 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 amending:
 - (a) Special Condition 6H (Arrangements for the recovery of uncertain costs); and
 - (b) Special Condition 1A (Definitions and Interpretation).
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 no responses.
6. The Authority's reasons for proposing the modifications are:
 - (a) to introduce a new adjustment category into the Annual Iteration Process for the ET1 Price Control Financial Model ("PCFM") for the Licence Holder, in respect of uncertain costs relating to a set of non-load related works projects specified in the Authority's Final Proposals for the RIIO-ET1 price control but inadvertently omitted from the Licence; and
 - (b) to include a definition for the term "Non-Load Related Works Costs" in the Licence.

This is to ensure that correctly calculated values for the term MOD, as used in the formula for Base Transmission Revenue set out in Special Condition 3A (Restriction of Transmission Network Revenue), are produced for the Licence Holder under the Annual Iteration Process for the PCFM. This is necessary so that the Authority's Final Proposals for the RIIO-ET1 price control are properly implemented.

7. The effect of the modifications will be to:
 - (a) introduce an adjustment mechanism and a new PCFM Variable Value for uncertain costs relating to one or more projects for non-load related works that were specified in the Authority's Final Proposals for the RIIO-ET1 price control; and
 - (b) include a definition for the term "Non-Load Related Works Costs" in the licence.
8. 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.
9. Appendix 2 to this Modification shows the modifications to the Special Conditions referred to in paragraph 2 as marked-up text.
10. Copies of this Modification and other documents referred to in it are available on the Ofgem website (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 paragraph 6 of this Modification, the Authority hereby modifies Special Conditions 6H and 1A in the manner specified in Appendix 2, with additions and deletions shown as marked-up text.

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".

.....
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 Direction dated 27 September 2013 –
Relevant licence holders**

Special Conditions subject to modification	Relevant licence holder
Special Conditions 6H and 1A in the electricity transmission licence held by SP Transmission Ltd	SP Transmission Ltd

Special Condition 6H. Arrangements for the recovery of uncertain costs

Introduction

6H.1 The purpose of this condition is:

- (a) to allow the licensee or the Authority to propose, and the Authority to determine, adjustments to the licensee's levels of Allowed Expenditure (“relevant adjustments”) in relation to the categories of costs set out in paragraph 6H.3 of this condition (each “an uncertain cost category”); and
- (b) to determine any appropriate revisions to PCFM Variable Values necessary to implement relevant adjustments and to determine the Relevant Years to which those revised PCFM Variable 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).

6H.2 The application of the mechanisms set out in this condition ensures that, as a consequence of the Annual Iteration Process, the value of the term MOD_t 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 appropriate adjustment to the licensee's Base Transmission Revenue in a manner that takes account of Allowed Expenditure levels in relation to the uncertain cost categories specified in paragraph 6H.3 of this condition, determined under Part A of this condition for the purposes of the Totex Incentive Mechanism Adjustment, in accordance with the methodology set out in chapters 6 and 7 of the ET1 Price Control Financial Handbook.

6H.3 The uncertain cost categories referred to in paragraph 6H.1 of this condition are:

- (a) Enhanced Physical Site Security Costs; ~~and~~
- (b) Work Force Renewal Costs; ~~and~~
- (c) **Non-Load Related Work Costs.**

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

Part A: Proposal and determination of relevant adjustments

6H.5 This part provides for:

- (a) the proposal of relevant adjustments by the licensee or by the Authority;
- (b) the determination of relevant adjustments by the Authority; and
- (c) the deeming of relevant adjustments in certain circumstances.

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

Proposal of relevant adjustments

- 6H.6 Subject to paragraph 6H.9 of this condition, the licensee may by notice to the Authority, and the Authority may by notice to the licensee, propose a relevant adjustment in relation to any uncertain cost category for any Relevant Year or Relevant Years from 2013/14 to 2020/21, provided that the proposed change to Allowed Expenditure:
- (a) is based on information about actual or forecast levels of efficient expenditure requirements, for an uncertain cost category that was not available when the licensee's Opening Base Revenue Allowance was derived;
 - (b) takes account of any relevant adjustments previously determined under this condition;
 - (c) **in relation to each uncertain cost category set out in paragraph 6H.3 sub-paragraphs (a) and (b) of this condition**, in aggregate constitutes a material amount within the meaning of paragraph 6H.7 of this condition;
 - (d) relates to costs incurred or expected to be incurred after 1 April 2013; and
 - (e) constitutes an adjustment to Allowed Expenditure which cannot be made under the provisions of any other Special Condition of this licence.
- 6H.7 A material amount is an amount of change to Allowed Expenditure which, when multiplied by the licensee's Totex Incentive Strength Rate set out in Appendix 1 of this condition, exceeds or is likely to exceed one per cent of the licensee's materiality threshold amount as set out in Appendix 2 of this condition.
- 6H.8 A proposal made under paragraph 6H.6 of this condition must include statements setting out:
- (a) the uncertain cost category to which the proposal relates;
 - (b) the changes to the licensee's Allowed Expenditure levels that are proposed and the Relevant Years to which those changes relate; and
 - (c) the basis of calculation for the changes to the licensee's Allowed Expenditure levels referred to in sub-paragraph (b) of this paragraph.

Application windows for relevant adjustment proposals

- 6H.9 The licensee and the Authority may only propose relevant adjustments in relation to the uncertain cost categories during the following application windows:
- (a) the first application window which opens on 1 May 2015 and closes on 31 May 2015;
 - (b) the second application window which opens on 1 May 2016 and closes on 31 May 2016; and
 - (c) the third application window which opens on 1 May 2018 and closes on 31 May 2018.
- 6H.10 Relevant adjustments relating to Enhanced Physical Site Security Costs **and Non-Load Related Work Costs** may only be proposed during the first and third application window. Relevant adjustments relating to Work Force Renewal Costs may only be proposed

Appendix 1 to the Authority's Direction dated 27 September 2013 –

Relevant licence holders

during the second application window. Each such relevant adjustment proposal must comply with the provisions of paragraphs 6H.6 to 6H.8 of this condition.

6H.11 Relevant adjustment proposals made outside the application windows set out in paragraph 6H.9 of this condition will not be determined by the Authority under the provisions of this condition.

Authority's power to determine relevant adjustments

6H.12 Where a proposal has been duly made under paragraph 6H.6 of this condition, the Authority may, within four months after the close of the relevant application window, determine any relevant adjustments that are to be made to the licensee's Allowed Expenditure levels and the Relevant Years to which those changes relate, in such manner as it considers appropriate.

6H.13 In determining any relevant adjustment under paragraph 6H.12 of this condition, the Authority will:

- (a) consult with the licensee and other interested parties;
- (b) have particular regard to the purposes of this condition; and
- (c) take no account of the general financial performance of the licensee under the price control arrangements set out in the Special Conditions of this licence.

6H.14 A determination under paragraph 6H.12 of this condition may confirm, reject, or vary the proposed relevant adjustment.

6H.15 Without limiting the general effect of paragraph 6H.14 of this condition, a determination by the Authority of a relevant adjustment may specify changes to Allowed Expenditure levels for the licensee in relation to an uncertain cost category for any Relevant Year from 2013/14 to 2020/21.

6H.16 The Authority will notify the licensee of any determination made under paragraph 6H.12 of this condition within 14 days of making the determination concerned.

6H.17 If the Authority has not determined a relevant adjustment in relation to a proposal duly made by the licensee under paragraph 6H.6 of this condition within four months after the close of the relevant application window, and the proposal has not been withdrawn, then the relevant adjustment, insofar as it relates to changes to Allowed Expenditure levels for the licensee for Relevant Years specified in the proposal, will be deemed to have been made.

Part B: Determination of revisions to PCFM Variable Values

6H.18 This Part provides for the determination and direction of revised PCFM Variable Values by the Authority for:

- (a) Enhanced Physical Site Security Costs (IAEEPS values); ~~and~~
- (b) Work Force Renewal Costs (IAEWR values); ~~and~~
- (c) **Non-Load Related Work Costs (IAENLUM values).**

6H.19 The Authority will determine whether any PCFM Variable Values should be revised for the purposes of implementing any relevant adjustments determined or deemed to have been made under the provisions of Part A of this condition.

Appendix 1 to the Authority's Direction dated 27 September 2013 –

Relevant licence holders

6H.20 Determinations under paragraph 6H.19 of this condition are to be made in accordance with the methodology contained in chapter 7 of the ET1 Price Control Financial Handbook.

6H.21 Where the Authority directs any revised PCFM Variable Values for Relevant Years earlier than Relevant Year t , the effect of using those revised 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_t for Relevant Year t and, for the avoidance of doubt, no previously directed value of the term MOD_t will be retrospectively affected.

Part C: Procedure to be followed for the direction of revised PCFM Variable Values relating to the recovery of uncertain costs

6H.22 Subject to paragraph 6H.25 of this condition, revised PCFM Variable Values determined by the Authority in accordance with the provisions of Part B of this condition in relation to uncertain cost categories will be directed by the Authority by:

- (a) 30 November 2015 (or as soon as is reasonably practicable thereafter), following the first application window;
- (b) 30 November 2016 (or as soon as is reasonably practicable thereafter), following the second application window; and
- (c) 30 November 2018 (or as soon as is reasonably practicable thereafter), following the third application window.

6H.23 Before issuing any directions under paragraph 6H.22 of this condition, the Authority will give notice to the licensee of all of the revised values that it proposes to direct.

6H.24 The notice referred to in paragraph 6H.23 of this condition will:

- (a) state that any revised PCFM Variable Values have been determined in accordance with Part B of this condition; and
- (b) specify the period (which must not be less than 14 days from the date of the notice) within which the licensee may make any representations concerning the determination of any revised PCFM Variable Values.

6H.25 The Authority will determine the revised PCFM Variable Values having due regard to any representations duly received under paragraph 6H.24 of this condition, and give reasons for its decisions in relation to them.

6H.26 If, for any reason, the Authority does not make a direction required under paragraph 6H.22 of this condition by the date specified in that paragraph, the Authority will direct the values concerned as soon as is reasonably practicable thereafter, consistent with the purpose of paragraph 5B.11 to 5B.13 of Special Condition 5B and, in any case, before directing a value for MOD_t under paragraph 5B.12 of that condition.

Part D: Interpretation

6H.27 Expressions defined in this condition and set out in Special Condition 1A (Definitions and Interpretation) are to be read and given effect subject to any further clarification set

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

out in the relevant Regulatory Instructions and Guidance issued by the Authority under Standard Condition B15 (Regulatory Instructions and Guidance).

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

APPENDIX 1: TOTEX INCENTIVE STRENGTH RATE

(see paragraph 6H.7 of this condition)

Licensee	Totex Incentive Strength Rate
SP Transmission Ltd	50%

APPENDIX 2: MATERIALITY THRESHOLD AMOUNT

(see paragraph 6H.7 of this condition)

Licensee	£m
SP Transmission Ltd	266.645

APPENDIX 3: NON-LOAD RELATED WORKS PROJECTS

Non-Load Works Project	Wider Works project trigger
U & AT - Galashiels to Eccles OHL Rebuild (61 cctkm)	Scottish Border area load related activity
XD - Jnc. XN route to Kincardine Major Refurbishment (Recond 10 cctkm)	East Coast 400kV Upgrade
XK - Jnc. XN route to Jnc. XM route OHL modernisation Major Refurbishment (Recond 21 cctkm)	East Coast 400kV Upgrade
XM - Jnc. XK route to Currie OHL modernisation Major Refurbishment (Recond 62 cctkm)	East Coast 400kV Upgrade
XN - Jnc. XD route to Jnc. XK route/ Jnc. XK route to Grangemouth Major Refurbishment (Recond 19 cctkm)	East Coast 400kV Upgrade

Special Condition 1A. Definitions and Interpretation

Introduction

1A.1 This condition sets out most of the defined words and expressions (most of which begin with capital letters) that are used in the Special Conditions, and gives their definitions.

1A.2 However:

- (a) some words and expressions which are only used in a particular Special Condition are defined in that condition; and
- (b) some words and expressions used in the Special Conditions are defined in Standard Condition 1 of the Standard Conditions (although capital letters are not used in those conditions to denote defined terms).

1A.3 Where a word or expression is defined both in this condition and in Standard Condition 1 of the Standard Conditions, the definition in this condition shall prevail.

1A.4 Any reference in these Special Conditions to:

- (a) a provision thereof;
- (b) a provision of the standard conditions of electricity transmission licences;
- (c) a provision of the standard conditions of electricity supply licences;
- (d) a provision of the standard conditions of electricity distribution licences;
- (e) a provision of the standard conditions of electricity generation licences;
- (f) a provision of the standard conditions of electricity interconnector licences,

will, if these or the standard conditions in question come to be modified, be construed, so far as the context permits as a reference to the corresponding provision of these or the standard conditions in question as modified.

Definitions in alphabetical order

1A.5 In the Special Conditions, unless the context otherwise requires:

[after]

Non-Domestic Rates

means:

- (a) in England and Wales, the rates payable by the licensee in respect of hereditaments on the Central Rating Lists (England and Wales) compiled under section 52 of the Local Government Finance Act 1988; and
- (b) in Scotland, the rates payable by the licensee in respect of any land and

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

heritages on the Valuation Rolls compiled under the Local Government Scotland Act 1975, the Local Government etc (Scotland) Act 1994,

or any legislation amending or replacing those enactments.

[insert]

Non-load Related Work Costs means the efficient costs incurred or expected to be incurred by the licensee for the purposes of completing one or more projects of non-load related works that form part of the licensee's Transmission System specified in Appendix 3 of Special Condition 6H (Arrangements for the recovery of uncertain costs) that are triggered by the commencement of, or interaction with a Wider Works project.