



Supporting Document 1: Draft RIIO-T1 Electricity Transmission licence changes

Please note

These draft licence conditions should be read in parallel with the document “RIIO-T1 and GD1: Draft licence conditions – First informal licence drafting consultation”.¹ This consultation sets out:

- some of the material issues that still need to be considered across these draft licence conditions as a whole (including consistency of formatting, and numbering²), and
- for each specific licence condition, areas that need to be developed further.

Please note that these conditions are at an early stage of development and require further internal consideration and development. We are sharing the draft conditions at this early stage for the benefit of the licensees in responding to our Initial Proposals.

¹ <http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/ConRes/Documents1/RIIOT1%20and%20GD1%20Draft%20licence%20conditions%20First%20informal%20licence%20drafting%20consultation.pdf>

² See for example, Chapter 1 , sub-section “Approach to licence drafting for RIIO”

Contents

| | |
|----------------------------------------------------------------------------------------------------------------------------------------------|----|
| STANDARD CONDITIONS..... | 4 |
| Standard Condition B1. Regulatory Accounts [ETC31]..... | 5 |
| Standard Condition B4. Provision of information to the Authority [ETC75]..... | 12 |
| Standard Condition B15. Regulatory Instructions and Guidance [ETC74]..... | 14 |
| Standard Condition B17. Methodology for Network Output Measures [ETC73]..... | 18 |
| [ETC/GTC/GDC 76] Standard condition [x]. Data Assurance requirements..... | 22 |
| SPECIAL CONDITIONS: RELATED TO RESTRICTION OF ALLOWED REVENUE..... | 27 |
| [ETC19] Special Condition [x]. Restriction of Transmission Network Revenue: Definitions..... | 28 |
| [ETC 20] Special Condition [x]. Restriction of Transmission Network Revenue..... | 29 |
| [ETC 21] Special Condition [x]. Restriction of Transmission Network Revenue: Calculation of the allowed pass-through items..... | 37 |
| [ETC 2] Special Condition [x]. Reliability Incentive Adjustment in Respect of Energy Not Supplied [NGET and SPTL]..... | 41 |
| [SHETL version for inclusion with Second Informal Licence Consultation.]..... | 41 |
| [ETC24] Special Condition [x]. Incentive adjustments relating to the licensee's Stakeholder Satisfaction Output..... | 46 |
| [ETC25] Special condition[x]. Incentive in Respect of Sulphur Hexafluoride (SF ₆) Gas Emissions [NGET and SPTL only]..... | 49 |
| [SHETL version for inclusion with Second Informal Licence Consultation.]..... | 49 |
| [ETC17] Special Condition [x]. Adjustment in Respect of the Environmental Discretionary Reward Scheme..... | 53 |
| [ETC10] Special Condition [x]. The Network Innovation Competition [NGET only] | 56 |
| [ETC10] Special Condition [x]. The Network Innovation Competition [SPTL and SHETL]..... | 61 |
| [ETC11] Special Condition [x]. The Network Innovation Allowance..... | 66 |
| [ETC15] Special Condition [x]. Transmission Investment for Renewable Generation | 74 |
| [ETC52] Special Condition [x]. Adjustment to the Transmission Network Revenue Restriction due to Transmission Asset Owner Incentives..... | 74 |
| [ETC12] Special Condition [x]. Restriction on System Operator Internal Revenue [NGET only]..... | 75 |
| [ETC127] Special Condition [x]. Restriction on System Operator External Costs ... | 78 |
| [ETC13 and ETC29] Special Condition [x]. Disapplication..... | 78 |
| [ETC 31] Special Condition [x]. Services treated as Excluded Services..... | 79 |
| [ETC45] Special condition [x]. Electricity transmission losses reporting..... | 82 |
| [ETC53] Special Condition [x]. Network Access Policy..... | 84 |
| SPECIAL CONDITIONS: PRICE CONTROL FINANCIAL MODEL (PCFM) VARIABLES..... | 87 |
| [ETC 9] Special Condition [x]. The Innovation Roll-out Mechanism..... | 88 |
| [ETC62] Special Condition [x]. Pre-construction Engineering deliverable for Strategic Wider Works Outputs..... | 95 |

| | |
|---------------------------------------------------------------------------------------------------------------------------------------------|------------|
| [ETC39] Special Condition [x]. Specification of Baseline and Strategic Wider Works Outputs and Assessment of Allowed Expenditure..... | 99 |
| [ETC41] Special Condition [x]: Network Development Policy and Wider Works Volume Driver [NGET only] | 112 |
| [ETC 55] Special Condition [x] Baseline generation connection outputs and generation connections volume driver [SPTL version] | 113 |
| [ETC 55] Special Condition [x] Baseline generation connection outputs and generation connections volume driver [NGET & SHETL version] | 121 |
| [ETC 18] Special Condition [x]. Enhancement to Pre-existing Infrastructure in National Parks and Areas of Outstanding Natural Beauty | 122 |
| [ETC 28] Special Condition [x]. Arrangements for the recovery of uncertain costs [NGET version] | 129 |
| [ETC 28] Special Condition [x]. Arrangements for the recovery of uncertain costs [SHETL version] | 134 |
| [ETC 28] Special Condition [x]. Arrangements for the recovery of uncertain costs [SPTL version] | 139 |
| [ETC 117] Special Condition [x]. Arrangements for the recovery of SO uncertain costs..... | 144 |
| [ETC 122] Special Condition [x]. Undergrounding uncertainty mechanism [NGET only]..... | 149 |
| [ETC 123] Special Condition [x]. Demand related infrastructure volume driver [NGET only] | 149 |
| [ETC 124] Special Condition [x]. Uncertainty mechanism for preconstruction works related to integrated network solution..... | 149 |
| SPECIAL CONDITIONS: FINANCIAL CONDITIONS | 150 |
| [ETC 64] Special Condition [x]. Legacy price control adjustments – Transmission Owner..... | 151 |
| [ETC67] Special Condition [x]. Legacy price control adjustments – System Operator | 159 |
| [ETC47] Special Condition [x]. Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – Transmission Owner | 165 |
| [ETC66] Special Condition [x]. Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – System Operator..... | 170 |
| [ETC 27] Special Condition [x]. Specified financial adjustments – Transmission Owner..... | 176 |
| [ETC 65] Special Condition [x]. Specified financial adjustments – System Operator | 182 |
| [ETC 26] Special Condition [x]. Annual Iteration Process for the ET1 Price Control Financial Model | 188 |
| [ETC 57] Special Condition [x]. Governance of ET1 Price Control Financial Instruments | 192 |

STANDARD CONDITIONS

DRAFT

Standard Condition B1. Regulatory Accounts [ETC31]

Introduction

1. This condition applies to regulatory accounts prepared for financial years commencing on or after 1 April 2013 for the purpose of ensuring that the licensee:
 - (a) prepares and publishes Regulatory Accounts within the meaning of Part A below; and
 - (b) maintains (and ensures that any affiliate or related undertaking of the licensee maintains) such accounting records, other records, and reporting arrangements for the consolidated transmission business as are necessary to enable the licensee to comply with that obligation.

Part A: Preparation of Regulatory Accounts

2. For the purposes of this condition, but without prejudice to the requirements of Part C below, the licensee must prepare Regulatory Accounts for the consolidated transmission business for each financial year.
3. Except and so far as the Authority otherwise consents, the licensee must comply with the obligations imposed by the following paragraphs of this Part A in relation to the preparation of Regulatory Accounts.
4. The licensee must keep or cause to be kept for a period approved by the Authority, but not less than the period referred to in section 388(4)(b) of the Companies Act 2006 and in the manner referred to in that section, such accounting records and other records as are necessary to ensure that all of the revenues, costs, assets, liabilities, reserves, and provisions of, or reasonably attributable to, the licensee's consolidated transmission business are separately identifiable in the accounting records of the licensee (and of any affiliate or related undertaking of the licensee) from those of any other business of the licensee.
5. The Regulatory Accounts are to be prepared on a consistent basis derived from the accounting records and other records referred to in paragraph 4 in respect of each financial year, and must comprise:
 - (a) the matters set out in paragraph 6; supported by
 - (b) the matters mentioned in paragraph 7; and
 - (c) the statement required by paragraph 8.
6. The matters to which paragraph 5(a) refers are:
 - (a) an income statement and a statement of comprehensive income (or, as appropriate, a profit and loss account and, as appropriate, a statement of total recognised gains and losses);

- (b) a statement of changes in equity, if appropriate;
 - (c) a statement of financial position (or, as appropriate, a balance sheet);
 - (d) a statement of cash flows (or, as appropriate, a cash flow statement);
 - (e) a Corporate Governance Statement in respect of the consolidated transmission business;
 - (f) a Directors' Report in respect of the consolidated transmission business; and
 - (g) a Business Review in respect of the consolidated transmission business.
7. The matters to which paragraph 5(b) refers are set out in explanatory notes to the Regulatory Accounts that:
- (a) provide a summary of the accounting policies adopted by the licensee for the purpose of producing Regulatory Accounts in respect of the consolidated transmission business;
 - (b) comply with the requirements applicable for preparing annual accounts in Chapter 4 of Part 15 of the Companies Act 2006 and of the reporting requirements of the applicable regulatory framework in respect of the consolidated transmission business; and
 - (c) provide Segmental Information for each of the Transmission Business Activities of the licensee.

Part B: Bases of charge or apportionment

8. Subject to paragraph 9, the licensee must include within its Regulatory Accounts a statement in respect of the consolidated transmission business that shows separately and in appropriate detail the amount of any revenue, cost, asset, liability, reserve, or provision which has been:
- (a) charged from any ultimate controller of the licensee, or from any subsidiary of such ultimate controller (other than the licensee or its subsidiaries), in relation to the provision of goods or services to the licensee; or
 - (b) charged from the licensee, or from any subsidiary of the licensee, in relation to the provision of goods or services to any ultimate controller of the licensee, or to any subsidiaries of such ultimate controller (other than the licensee or its subsidiaries); or
 - (c) determined by apportionment or allocation between the consolidated transmission business and any other business of the licensee or affiliate or related undertaking (and, where this sub-paragraph applies, the statement must include a description of the basis of the apportionment or allocation).

9. The requirements of paragraph 8 apply only in respect of goods and services received or supplied for the purposes of the consolidated transmission business.
10. Unless the Authority so specifies in directions issued for the purposes of this condition, or with the Authority's prior written consent, the licensee must not in relation to the Regulatory Accounts in respect of any financial year change the bases of charge, apportionment, or allocation referred to in paragraph 8 from those applied in respect of the immediately preceding financial year.
11. Where the licensee has, in accordance with paragraph 10 above, changed its bases of charge, apportionment, or allocation or changed any of its accounting policies or the manner of their application from those adopted for the immediately preceding financial year, then the licensee must, if so directed by the Authority, in addition to preparing Regulatory Accounts on the changed bases that it has adopted, also prepare such Regulatory Accounts by reference to the bases, accounting policies, and manner of application that applied in respect of that immediately preceding financial year.

Part C: Consistency with statutory accounts

12. Regulatory accounts and information prepared under Parts A and B above must, so far as is reasonably practicable and except with the Authority's approval, having regard to the purposes of this condition:
 - (a) have the same content and format as the most recent or concurrent statutory accounts of the licensee prepared under Part 15 of the Companies Act 2006; and
 - (b) comply with all relevant accounting and reporting standards currently in force under the applicable accounting frameworks as set out in Part 15 of the Companies Act 2006.

Part D: Audit and delivery of Regulatory Accounts

13. Except and so far as the Authority otherwise consents, the licensee must:
 - (a) procure an audit by an Appropriate Auditor of such parts of its Regulatory Accounts and the Directors' Report and Business Review as would be specified in the Companies Act 2006 as being required to be so audited if the licensee were a Quoted Company and those accounts were the statutory accounts of the licensee drawn up to 31 March and prepared under Part 15 of the Companies Act 2006;
 - (b) procure a report by that auditor, addressed to the Authority, that states whether in the auditor's opinion those accounts fairly present the financial position, financial performance, and cash flows of or reasonably attributable to the consolidated transmission business in accordance with the requirements of this condition; and

- (c) deliver those accounts and the auditor's report required under paragraph 14 to the Authority as soon as is reasonably practicable, and in any event before publication of such accounts under Part G below and not later than 31 July following the end of the financial year to which the Regulatory Accounts relate.

Part E: Terms of appointment of the Appropriate Auditor

- 14. For the purposes of Part D above, the licensee must, at its own expense, enter into a contract of appointment with an Appropriate Auditor which includes a term requiring that the audit of the licensee's Regulatory Accounts must be conducted by that auditor in accordance with all such relevant auditing standards in force on the last day of the financial year to which the audit relates as would be appropriate for accounts prepared in accordance with the provisions of Part 15 of the Companies Act 2006.

Part F: Agreed Upon Procedures for the Appropriate Auditor

- 15. The licensee must at its own expense enter into a contract of appointment with an Appropriate Auditor for the completion of Agreed Upon Procedures that are to apply for the purposes of enabling that auditor to review:
 - (a) the licensee's compliance with its obligations in respect of the prohibition of cross-subsidy and discrimination generally and, in particular where they apply to the licensee, under standard conditions C7 (Prohibition of discrimination between users), C8 (Requirement to issue terms), and D5 (Prohibition on engaging in preferential or discriminatory behaviour) of this licence; and
 - (b) the statement that by virtue of Part B above is required to be included in the Regulatory Accounts concerning the bases of charge, apportionment, and allocation applied by the licensee in relation to those accounts.
- 16. The contract of appointment must require that the Agreed Upon Procedures are conducted in relation to each financial year and that the licensee will arrange for the Appropriate Auditor to address a report to the Authority by 31 July following the end of each such year which:
 - (a) states that he has, in a manner consistent with the relevant auditing standards, completed the Agreed Upon Procedures issued by the Authority in respect of the financial year under report; and
 - (b) sets out his findings.
- 17. If the Authority is satisfied that the Appropriate Auditor's report submitted under this Part F demonstrates that the licensee has complied with the obligations to avoid discrimination and cross-subsidies that are imposed on the licensee, the report is to be deemed to represent the results of an audit of those obligations.

Part G: Publication and provision of Regulatory Accounts

18. Unless the Authority after consulting with the licensee otherwise directs, the licensee must publish its Regulatory Accounts (excluding the statement required to be included in them by virtue of Part B above and any other information agreed by the Authority to be confidential):
 - (a) as a stand-alone document in accordance with this condition;
 - (b) by 31 July after the end of the financial year to which the accounts relate;
 - (c) on, and in a way that is accessible from, its website or that of an affiliate or ultimate controller of the licensee provided that link is both clear and readily accessible; and
 - (d) in any other manner which, in the opinion of the licensee, is necessary to secure adequate publicity for the accounts.
19. A copy of the Regulatory Accounts must be provided free of charge:
 - (a) to Consumer Focus (or any successor entity), no later than the date on which the Regulatory Accounts are published; and
 - (b) to any person requesting a copy.

Part H: Interpretation and definitions

20. Any consent or direction by the Authority given in relation to a provision of this condition may be given in relation to some or all of the requirements of the relevant paragraph and subject to such conditions as the Authority considers appropriate or necessary having regard to the purposes of this condition.
21. The requirement under paragraph 6 of this condition for the licensee to include a Business Review, a Corporate Governance Statement, and a Directors' Report in its Regulatory Accounts is to be read as if the requirement applied to the licensee as a Quoted Company, whether or not it is such a company, such that:
 - (a) the Business Review has the coverage and content of the business review that a Quoted Company is required to prepare under section 417 of the Companies Act 2006;
 - (b) the Corporate Governance Statement has the coverage and content of a corporate governance statement that a Quoted Company is required to prepare under the Combined Code on Corporate Governance issued under the Financial Services Authority's Listing Rules and interpretations on corporate governance; and
 - (c) the Directors' Report has the coverage and content of the directors' report that a Quoted Company is required to prepare under sections 415, 416, 417, 418(2), and 419(3) and (4) of the Companies Act 2006.

23. For the purposes of this condition:

| | |
|-----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Agreed Upon Procedures | means procedures from time to time agreed between the Authority, the Appropriate Auditor, and the licensee for the purpose of enabling the Appropriate Auditor to review and report to the Authority on matters relating to the requirements referred to at paragraph 16 of this condition. |
| Appropriate Auditor | means: <ul style="list-style-type: none">(a) in the case of a licensee that is a company within the meaning of section 1 of the Companies Act 2006, a person appointed as auditor under Chapter 2 of Part 16 of that Act;(b) in the case of any other licensee that is required by the law of a country or territory within the European Economic Area to appoint an auditor under provisions analogous to those of Chapter 2 of Part 16 of that Act, a person so appointed; and(c) in any other case, a person who is eligible for appointment as a company auditor under Part 42 of that Act. |
| Quoted Company | has the meaning given to that term in section 385 of the Companies Act 2006 |
| Segmental Information | means such financial and descriptive information in respect of the Transmission Business Activities of the licensee as would be required to be disclosed under International Financial Reporting Standard 8 (or Statement of Standard Accounting practice 25) if each of those activities was an operating segment (or reportable segment) of the licensee within the meaning of the respective standards. |
| Transmission Business Activities | means the following activities of the licensee in each case to the extent applicable: <ul style="list-style-type: none">(a) the Transmission Owner Activity;(b) the system operator activity (where it performs this activity);(c) any de minimis activity within the meaning of paragraph 4 of Standard Condition B6 (Restriction of activity and |

- financial ring-fencing); and
- (d) any other activities to which this licence relates and to which the Authority has given its consent in accordance with paragraph 3(d) of Standard Condition B6 (Restriction on activity and financial ring-fencing) and clearly describing each service provided.

Transmission Owner Activity

means the activity permitted to the holder for the time being of a transmission licence in relation to which licence the Authority has issued a Section D (transmission owner standard conditions) Direction and where Section D remains in effect (whether or not subject to any terms included in a Section D (transmission owner standard conditions) Direction or to any subsequent variation of its terms to which the licensee may be subject).

DRAFT

Standard Condition B4. Provision of information to the Authority

[ETC75]

1. Subject to paragraphs 5 and 7, the licensee shall furnish to the Authority, in such manner and at such times as the Authority may reasonably require, such information and shall procure and furnish to it such reports, as the Authority may reasonably require or as may be necessary for the purpose of performing:

~~(a) any functions transferred to or conferred on it by or under the Utilities Act 2000; and [The Utilities Act includes reference to the Energy Acts and therefore references can be removed from 1(b)]~~

~~(a)(b) the functions conferred on the Authority by other statute or enactment or under the Act, the Energy Act 2004, and the Energy Act 2008; and~~

~~any functions transferred to or conferred on it by or under the Utilities Act 2000.~~

2. The licensee shall procure from each company or other person which the licensee knows or reasonably should know is at any time an ultimate controller of the licensee a legally enforceable undertaking in favour of the licensee in a form specified by the Authority that the ultimate controller ("the information covenantor") will give to the licensee, and will procure that any person (including, without limitation, a corporate body) which is a subsidiary of, or is controlled by, the information covenantor (other than the licensee and the licensee's subsidiaries) will give to the licensee, all such information as may be necessary to enable the licensee to comply fully with the obligation imposed on it in paragraph 1. Such undertaking shall be obtained within 7 days of such corporate body or other person in question becoming an ultimate controller of the licensee and shall remain in force for so long as the licensee remains the holder of this licence and the information covenantor remains an ultimate controller of the licensee.
3. The licensee shall deliver to the Authority evidence (including a copy of each such undertaking) that the licensee has complied with the obligation

to procure undertakings pursuant to paragraph 2, and shall comply with any direction from the Authority to enforce any undertaking so procured.

4. The licensee shall not, save with the consent in writing of the Authority, enter (directly or indirectly) into any agreement or arrangement with any ultimate controller of the licensee or, where the ultimate controller is a corporate body, any of the subsidiaries of such a corporate ultimate controller (other than the subsidiaries of the licensee) at a time when:
 - (a) an undertaking complying with paragraph 2 is not in place in relation to that ultimate controller; or
 - (b) there is an unremedied breach of such undertaking; or
 - (c) the licensee is in breach of the terms of any direction issued by the Authority under paragraph 3 of this condition.
2. The licensee shall not be required by the Authority to furnish it under this condition with information for the purpose of the exercise of its functions under section 47 of the Act.
3. The licensee shall, if so requested by the Authority, give reasoned comments on the accuracy and text of any information or advice (so far as relating to its activities as the transmission licensee) which the Authority proposes to publish pursuant to section 48 of the Act.
4. This condition shall not require the licensee to produce any documents or give any information which it could not be compelled to produce or give in evidence in civil proceedings before a court.
5. ~~In The power of the Authority to calling~~ for information under this condition ~~is in addition to the power of~~ the Authority ~~may to~~ call for information under or pursuant to any other condition. There shall be a presumption that the provision of information in accordance with any other condition is sufficient for the purposes of that condition, but that presumption shall be rebutted, if the Authority states in writing that in its opinion such further information is, or is likely to be, necessary to enable it to exercise functions under the condition in question.

Standard Condition B15. Regulatory Instructions and Guidance [ETC74]

[Paragraph numbers and general format of condition to follow approach used in existing Standard Conditions]

Introduction

- 76.1 The purpose of this condition is to set out the scope, contents, and common governance arrangements for the Regulatory Instructions and Guidance (“RIGs”) published by the Authority pursuant to this condition.
- 76.2 The RIGs are the primary means by which the Authority directs the licensee to collect and provide the information that the Authority needs to enable it to administer the Special Conditions of this licence and the Final Proposals.

Part A: Licensee’s obligations under this condition

- 76.3 Unless and so far as the Authority otherwise consents, the licensee must have in place and maintain appropriate systems, processes, and procedures to enable it:
- (a) to estimate, measure, and record the information detailed in the RIGs (“Specified Information”); and
 - (b) to provide such information to the Authority in respect of such periods and within such timeframes as are specified in the RIGs.
- 76.4 To facilitate compliance with paragraph 76.3, the accounting records and other records kept by the licensee with respect to the Specified Information must:
- (a) be so arranged as to ensure that such information can be separately identified and reasonably attributed as between the licensee’s business and the business of any affiliate or related undertaking of the licensee; and
 - (b) be maintained for a period of eight years, or such shorter period as set out in the RIGs, from the date that they are made.

Part B: Scope and content of the RIGs

- 76.5 Subject to paragraphs 76.6 and 76.7, the matters that may be included, or for which provision may be made, in the RIGs are:
- (a) instructions and guidance on the establishment of systems, processes, procedures, and ways for recording and providing Specified Information ;
 - (b) instructions and guidance on the standards of accuracy and reliability that are applicable to the recording of Specified Information (including different classes of such information);

- (c) a timetable for the development of such systems, processes, and procedures as are required to achieve such standards;
- (d) the methodology for calculating or deriving numbers comprising Specified Information;
- (e) provision with respect to the meaning of words and phrases used in defining Specified Information;
- (f) requirements as to the form and manner in which, or the frequency with which, Specified Information must be recorded;
- (g) requirements as to the form and manner in which, or the frequency with which, Specified Information must be provided to the Authority;
- (h) requirements as to which (if any) of the Specified Information is to be subject to audit, the terms on which an auditor is to be appointed by the licensee for that purpose, and the nature of the audit to be carried out by that person;
- (i) requirements for the recording of Specified Information that is reasonably necessary to enable an Examiner nominated by the Authority in accordance with the relevant terms of the RIGs to determine the accuracy and reliability of the Specified Information;
- (j) a statement on whether and to what extent each category of the Specified Information is required for the purposes of the RIGs; and
- (k) provision about how the Authority intends to monitor, assess, and enforce compliance with the RIGs (as to which, see also Part E below).

76.6 The provisions of the RIGs must not exceed what is reasonably required to achieve the purposes of this condition, having regard to the materiality of the costs likely to be incurred by the licensee in complying with those provisions.

76.7 No Specified Information may exceed what could be requested from the licensee by the Authority under paragraph 1 of [standard condition B4 (ET)/ standard special condition A26 (GT and GD)] (Provision of Information to the Authority) [excluding any reference to paragraph 8 of that condition].

Part C: Development and modification of the RIGs

76.8 The Authority may issue new RIGs or modify any existing RIGs by issuing a direction for that purpose to all licensees in whose licence this condition has effect.

76.9 A direction issued by the Authority under paragraph 76.8 shall be of no effect unless the Authority has first:

- (a) Given notice to all licensees in whose licence this condition has effect that it proposes to issue new RIGs or (as the

case may be) to modify the RIGs:

- (i) specifying the date on which it proposes that the provisions of the document to be issued or modified should take effect;
 - (ii) setting out the text of the RIGs to be issued or (as the case may be) modified, and the Authority's reasons for proposing to issue or modify it; and
 - (iii) specifying the time (which must not be less than a period of 28 days from the date of the notice) within which representations to such proposals may be made; and
- (b) considered any representations in response to the notice that are duly made and not withdrawn.

76.10 The requirements for the issuing of new RIGs or modification of existing RIGs set out in paragraph 76.9 may be satisfied before as well as after the coming into effect of this condition.

Part D: Requirements for new or more detailed information

76.11 This Part D applies if any modified or new RIGs have the effect of introducing a requirement to provide:

- (a) a new category of Specified Information; or
- (b) an existing category of Specified Information to a greater level of detail,

and such information has not previously been collected by the licensee, whether under the provisions of the RIGs or otherwise.

76.12 Where this Part D applies, the licensee may provide estimates to the Authority in respect of the relevant category of Specified Information for any [Relevant Year][Formula Year] specified by the Authority.

76.13 The estimates that are mentioned in paragraph 76.12 may be derived from such other information available to the licensee as may be appropriate for that purpose.

Part E: Compliance with the provisions of the RIGs

76.14 The licensee must at all times act in accordance with the provisions of the RIGs for the time being in force pursuant to this condition..

76.15 Nothing in this condition requires the licensee to provide any documents that it could not be compelled to produce or give in evidence in civil proceedings before a court.

Part F: Interpretation

76.16 For the purposes of this condition:

Examiner

means, in relation to the RIGs, a person whose degree of knowledge and experience of the matters that are the subject of the RIGs will enable him to properly carry out and complete the tasks required of him under the terms of his nomination by the Authority pursuant to the provisions of the RIGs.

Specified Information

means information (or a category of information) that is so described or defined in the RIGs.

DRAFT

Standard Condition B17. Methodology for Network Output Measures [ETC73]

Introduction

1. The purpose of this condition is to ensure that the licensee has in place a Methodology for Network Output Measures that achieves the objectives set out in paragraph 3.

Part A: Licensee's general obligations under this condition

2. The licensee must at all times have in place and maintain a Methodology for Network Output Measures ("the NOMs Methodology") that:
 - (a) facilitates the achievement of the NOMs Methodology Objectives set out in Part B below;
 - (b) enables the objective evaluation of the Network Output Measures set out in Part C below;
 - (c) is implemented by the licensee in accordance with the provisions of Part D below; and
 - (d) may be modified from time to time in accordance with the provisions of Part E below.

Part B: The NOMs Methodology Objectives

3. The NOMs Methodology Objectives as referred to in paragraph 2(a) include the following objectives:
 - (a) the monitoring of the licensee's performance in relation to the development, maintenance and operation of an efficient, co-ordinated and economical system of electricity transmission on the licensee's transmission system;
 - (b) the assessment of historical and forecast network expenditure on the licensee's transmission system;
 - (c) the comparative analysis of performance over time between:
 - (i) geographic areas of, and network assets within, the licensee's transmission system;
 - (ii) the licensee's transmission system and other transmission systems forming part of the national electricity transmission system;
 - (iii) the national electricity transmission system and transmission systems outside Great Britain; and
 - (iv) the national electricity transmission system and distribution systems within Great Britain;

- (d) the communication of relevant information about the licensee's transmission system to the Authority and other interested parties in an accessible and transparent manner; and
- (e) the assessment of customer satisfaction derived from the services provided by the licensee as part of its transmission business.

Part C: The Network Output Measures methodology

- 4. The NOMs Methodology shall be designed to enable the evaluation of:
 - (a) the Network Assets Condition Measure, which relates to the current condition of the licensee's Network Assets, the reliability of the licensee's Network Assets, and the predicted rate of deterioration in the condition of the Network Assets, which is relevant to assessing the present and future ability of the Network Assets to perform their function;
 - (b) the Network Risk Measure, which relates to the overall level of risk to the reliability of the licensee's transmission system that results from the condition of the Network Assets and the interdependence between the Network Assets;
 - (c) the Network Performance Measure, which relates to those aspects of the technical performance of the licensee's transmission system that have a direct impact on the reliability and cost of services provided by the licensee as part of its transmission business; and
 - (d) the Network Capability Measure, which relates to the level of the capability and utilisation of the licensee's transmission system at entry and exit points and to other network capability and utilisation factors;collectively the "Network Output Measures" to which paragraph 2(b) refers.
- 5. In this condition, "Network Assets" means the assets that collectively form the licensee's transmission system, and includes the principal components of those assets.
- 6. The licensee must set out in its NOMs Methodology the categories of data that are to be used and the methodology that is to be applied to such data to derive each of the Network Output Measures.

Part D: Implementation of the NOMs Methodology

- 7. Except where the Authority otherwise consents, the licensee must provide it with:
 - (a) such information (whether historic, current, or forward-looking) about the Network Output Measures; supported by
 - (b) such relevant other data and such examples of network modelling, as may be specified for the purposes of this condition in any Regulatory Instructions and Guidance ("RIGs") that have been issued by the Authority in accordance with the provisions of standard condition [ETC74] (Regulatory Instructions and Guidance).

8. The information and other matters mentioned in paragraph 7 must be provided in such manner, in respect of such periods, and within such timeframes as may be specified in the RIGs to which that paragraph refers.

Part E: Modification of the NOMs Methodology

9. The licensee must at all times keep the NOMs Methodology under review to ensure that it facilitates the achievement of the NOMs Methodology Objectives.
10. The NOMs Methodology may be modified from time to time for the purpose of enabling the methodology to facilitate better the achievement of the NOMs Methodology Objectives.
11. The licensee may make a modification to the NOMs Methodology, subject to paragraph 13, after:
 - (a) consulting with other transmission licensees to which this condition applies and with any other interested parties, allowing them a period of at least 28 days within which to make written representations with respect to the licensee's modification proposal; and
 - (b) submitting to the Authority a report that contains all of the matters that are listed in paragraph 12.
12. The matters to which paragraph 11(b) refers are these:
 - (a) a statement of the proposed modification to the NOMs Methodology;
 - (b) a full and fair summary of any representations that were made to the licensee pursuant to paragraph 11(a) and were not withdrawn;
 - (c) an explanation of any changes that the licensee has made to its modification proposal as a consequence of such representations;
 - (d) an explanation of how, in the licensee's opinion, the proposed modification, if made, would better facilitate the achievement of the NOMs Methodology Objectives;
 - (e) a presentation of the data and other relevant information (including historical data, which should be provided, where reasonably practicable, for a period of at least ten previous years) that the licensee has used for the purpose of developing the proposed modification; and
 - (f) a timetable for the implementation of the proposed modification, including an implementation date (which must not be earlier than the date on which the period referred to in paragraph 13 would expire).
13. Where the licensee has complied with the requirements of paragraphs 11 and 12, the licensee shall implement the proposed modification to the NOMs Methodology unless the Authority, within 28 days after receiving the

report submitted to it under paragraph 11(b), issues a direction to the licensee requiring it not to implement the proposed modification.

14. The Authority, after consulting with the licensee and any other interested parties, may direct the licensee to modify the NOMs Methodology in such manner, to such extent, and with effect from such time as may be specified in the direction.

15. The licensee must comply with the requirements of any direction given to it under paragraph 14.

Part F: Interpretation

16. For the purposes of this condition:

Methodology for Network Output Measures means the methodology that was in place under this licence under the name of “network output measures methodology” in the form in which this licence was in force at 31 March 2013 or as subsequently amended as provided for in this condition.

Network Assets has the meaning given to that term in paragraph 5.

Network Output Measures means the Network Assets Condition Measure, the Network Risk Measure, the Network Performance Measure, and the Network Capability Measure, each as defined in paragraph 4.

NOMs Methodology means the Methodology for Network Output Measures.

NOMs Methodology Objectives means the objectives listed under part B of this condition.

RIGs has the meaning given to that term in paragraph 7.

[ETC/GTC/GDC 76] Standard condition [x]. Data Assurance requirements

Introduction

76.1 This condition requires the licensee to undertake processes and activities for the purpose of reducing the risk, and subsequent impact, of any inaccurate or incomplete reporting, or any misreporting, of information to the Authority.

76.2 This condition comes into effect in this licence on the earlier of:

- (a) the date on which a Data Assurance Direction issued by the Authority in accordance with the provisions of Part B below has effect; and
- (b) 1 April 2015.

Part A: Licensee's obligations under this condition

76.3 The licensee must:

- (a) comply with the provisions of the Data Assurance Guidance ("the DAG) as if it were a condition of this licence;
- (b) where required to provide Data to the Authority under the provisions of this licence, provide accurate and complete Data;
- (c) carry out a Risk Assessment in accordance with such provisions and timescales as are specified for that purpose in the DAG, and ensure that it has used its best endeavours to mitigate such risks as it has identified in that assessment;
- (d) if directed by the authority, procure an independent review of its Internal Audit Function in accordance with such provisions and timescales as are specified for that purpose in the DAG; and
- (e) provide to the Authority, in accordance with such provisions and timescales as are specified for that purpose in the DAG, a report that contains:
 - (i) the results of the licensee's Risk Assessment;
 - (ii) a description of the Data Assurance activities that the licensee intends to undertake during the coming year to mitigate the risks identified in that assessment;
 - (iii) a description of the Data Assurance activities undertaken by the licensee during the preceding year; and
 - (iv) if required, the details and results of the independent review procured by the licensee of its Internal Audit Function.

76.4 Data provided to the level of accuracy and completeness required under the relevant licence condition will be considered to be accurate and complete for the purposes of this condition.

76.5 The licensee must have in place and maintain appropriate systems, processes, and procedures to enable it to perform its obligations under paragraph 76.3.

76.6 The licensee must comply with any direction given by the Authority that requires it to carry out (or, where appropriate, to procure and facilitate the carrying out of) a specific Data Assurance Activity in accordance with the provisions of Part E.

Part B: Requirement for consultation before giving a direction

76.7 A Data Assurance Direction is of no effect unless, before issuing it, the Authority has first:

- (a) given notice to all licensees in whose licence this condition has effect that it proposes to issue the direction:
 - (i) specifying the date on which it proposes that it should have effect;
 - (ii) setting out the text of the direction and the Authority's reasons for proposing to issue it; and
 - (iii) specifying the time (which must not be a period of less than 28 days from the date of the Notice) within which representations or objections with respect to the proposal may be made; and
- (b) considered any representations in response to the Notice that are duly made and not withdrawn.

Part C: Scope and contents of the Data Assurance Guidance

76.8 The Data Assurance Guidance ("the DAG") is the document of that name issued and from time to time revised by the Authority under Part D of this condition.

76.9 The purposes of the DAG are to establish a process under which the licensee must:

- (a) carry out a Risk Assessment and mitigate against risks identified in that Risk Assessment;
- (b) report to the Authority under this condition; and
- (c) if required, procure an independent review of its Internal Audit Function.

76.10 Subject to paragraphs 76.11 and 76.12, the DAG may include, or make provision for, any of the following matters:

- (a) the Data to which the Risk Assessment applies;
- (b) the format of the Risk Assessment;
- (c) the frequency with which and the timescales within which the Risk Assessment is required to be carried out;
- (d) the format of the independent review that may be required of the licensee's Internal Audit Function and the associated reporting requirements;
- (e) the format of the reporting requirements detailed in paragraph 76.3(e); and
- (f) the frequency with which and the timescales within which the licensee should report on its Data Assurance programme to the Authority.

76.11 References in paragraph 76.10 to the format of an assessment, review, or reporting requirement includes references to its form, layout, scope and content.

76.12 The provisions of the DAG must not exceed what is required to achieve the purposes of this condition, having regard to the materiality of the costs likely to be incurred by the licensee in complying with those provisions and the impact on consumers of the potential errors.

76.13 No information to be provided to the Authority under or pursuant to the requirements of the DAG may exceed what could be requested from the licensee by the Authority pursuant to [condition SLC 24 of the gas [transmission/distribution] licence/ standard conditions B4 of the electricity transmission licence].

Part D: Development and modification of Data Assurance Guidance

76.14 The DAG may be issued or modified by the Authority by direction.

76.15 A direction issued by the Authority under paragraph 76.14 is of no effect unless the Authority has first:

- (a) given notice to all licensees in whose licence this condition has effect that it proposes to issue the DAG or (as the case may be) to modify the DAG:
 - (i) specifying the date on which it proposes that the provisions of the document to be issued or modified should take effect;
 - (ii) setting out the text of the DAG to be issued or (as the case may be) modified and the Authority's reasons for proposing to issue or modify it; and

- (iii) specifying the time (which must not be less than a period of 28 days from the date of the Notice) within which representations to such proposals may be made; and
- (b) considered any representations in response to the Notice that are duly made and not withdrawn.

Part E: Authority's power to specify Data Assurance Activity

76.16 The Authority may, after consulting with the licensee, issue a direction, in accordance with the provisions of paragraph 76.17, requiring the licensee to carry out (or, where appropriate, to procure and facilitate the carrying out of) such Data Assurance Activity as may be specified in the direction.

76.17 The requirements for the direction under paragraph 76.15 are that it must:

- (a) contain a description of the Data Assurance Activity to be carried out by the licensee (or, where appropriate, by a person nominated by the Authority) for the purpose of ensuring the accuracy and completeness of Data provided to the Authority;
- (b) if it refers to a person nominated by the Authority, specify the steps that must be taken by the licensee to procure and facilitate the carrying out of that activity by that person;
- (c) contain a description of the Data to which the activity that is described in the direction must apply;
- (d) contain an explanation of why the Authority requires the licensee to carry out that activity;
- (e) specify any relevant dates by which that activity must be completed; and
- (f) specify the form and content of any information relating to that activity that the licensee must provide to the Authority.

Part F: Derogations

76.18 The Authority may, after consulting with the licensee, give a direction ("derogation") to the licensee that relieves it of its obligations under this condition to such extent, for such a period of time, and subject to such conditions as may be specified in the direction.

Part G: Interpretation

76.19 For the purposes of this condition:

| | |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Data | means the information submitted to the Authority under this licence in respect of which the licensee must carry out a Risk Assessment as specified in the DAG. |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|

| | |
|---------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Data Assurance Activity | means, in respect of Data, the activity undertaken by the licensee (or a person nominated by the Authority, as the case may be) to address the risks identified in the Risk Assessment. |
| Data Assurance Direction | means a direction by the Authority to bring into effect this condition. |
| Internal Audit Function | means the licensee's function of assuring that its risk management, governance and internal control processes are operating effectively. |
| Risk Assessment | means an assessment of the likelihood and potential impact of any inaccurate or incomplete reporting, or any misreporting, of Data by the licensee to the Authority under this licence. |

DRAFT

**SPECIAL CONDITIONS: RELATED TO
RESTRICTION OF ALLOWED REVENUE**

[ETC19] Special Condition [x]. Restriction of Transmission Network

Revenue: Definitions

[NGET – SC: A, D1 and AA5A
SPTL and SHETL - SC A and J1]

Structure of conditions to be reviewed and amended for inclusion with Second Informal Licence Consultation.

[ETC 20] Special Condition [x]. Restriction of Transmission Network Revenue

Introduction

20.1 The purpose of this condition is as follows:

- (a) to establish the charging restrictions that determine the level of [Maximum Revenue/Allowed Transmission Owner Revenue] that may be recovered by the licensee from Transportation Activity Charges; and
- (b) to set out the obligations of the licensee in respect of those restrictions.

[Transportation Activity Charges not currently defined]

Part A: Licensee's obligation

20.2 The licensee, in setting Transportation Activity Charges, shall use its best endeavours to ensure that, in Relevant Year t, [Transmission Network Revenue/Regulated Transmission Revenue] (TNR_t) does not exceed [Maximum Revenue/Allowed Transmission Owner Revenue] (TO_t) in that year.

Part B: Calculation of [Maximum Revenue/Allowed Transmission Owner Revenue]

20.3 [Maximum Revenue/Allowed Transmission Owner Revenue], in Relevant Year t, is derived in accordance with the following formula (in this condition, the Principal Formula):

$$TO_t = BR_t + PT_t + OIP_t + II_t + TIRG_t + DIS_t + TS_t - K_t$$

20.4 In the Principal Formula:

TO_t means the amount of [Maximum Revenue/Allowed Transmission Owner Revenue] in Relevant Year t.

BR_t means the amount of Base Transmission Revenue in Relevant Year t as calculated using the formula set out in Part C of this condition.

PT_t means the amount of the Allowed Pass-through Items revenue adjustment made in Relevant Year t as derived in accordance with [ETC 21] (Calculation of the allowed pass-through items).

| | |
|-------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| OIP _t | means the amount of the output incentive revenue adjustment made in Relevant Year t as calculated using the formula set out in Part D of this condition. |
| II _t | means the amount of the innovation revenue adjustment made in Relevant Year t as calculated using the formula set out in Part E of this condition. |
| TIRG _t | means, for each TIRG Relevant Year t, the aggregate of the annual revenue allowances for each transmission investment project specified in annex A of [ETC 15] (Transmission Investment for Renewable Generation) and shall be calculated in accordance with that condition. |
| DIS _t | <p>means the amount of the adjustment as a result of the difference (whether of a positive or negative value) between:</p> <p>(a) the total amount charged to the licensee in Relevant Year t-1 by Scottish Hydro-Electric Transmission Ltd and SP Transmission Ltd in respect of Site-Specific Charges (as such charges are defined in Schedule Ten of the STC); and</p> <p>(b) the total income recovered by the licensee in respect of excluded services in Relevant Year t-1 from customers in the respective transmission areas of each of Scottish Hydro-Electric Transmission Ltd and SP Transmission plc. [NGET only]</p> |
| TS _t | <p>means the amount of the adjustment as a result of the difference (whether of a positive or negative value) between:</p> <p>(a) the total amount charged to the licensee in Relevant Year t-1 by Scottish Hydro-Electric Transmission Ltd, SP Transmission plc, in respect of transmission owner final sums (as such charges are defined in schedule nine of the STC); and</p> <p>(b) an amount equal to the income received by the licensee in Relevant Year t-1 in respect of users who terminate relevant bilateral agreements for connection and/or access rights to the GB transmission system in the respective transmission areas of each of Scottish Hydro-Electric Transmission Ltd, SP Transmission plc prior to commencing use of the GB transmission system (for the avoidance of doubt, including any amounts that are treated as capital contributions). [NGET only]</p> |
| K _t | means the amount of the correction term in Relevant Year t calculated using the formula set out in Part F of this condition. |

Part C: Calculation of Base Transmission Revenue (BR)

20.5 For the purposes of the Principal Formula, the amount of BR_t is derived in accordance with the following formula:

$$BR_t = (PU_t + MOD_t + TRU_t) \times RPIF_t$$

[NGET only: Terms above will specify they are for TO and similarly on SO, ie TOBR, TOMOD, TOTRU and TOPU]

20.6 In the formula for the BR term above:

PU_t means the amount set against the licensee's name in Appendix 1, and represents the opening base revenue allowance determined by the Authority in relation to the transmission of electricity.

MOD_t has the value zero in Relevant Year 2013-14, and in each subsequent Relevant Year is the value of the incremental change to the licensee's opening base revenue allowance for Relevant Year t (set against the licensee's name in Appendix 1 to this condition) derived from the Annual Iteration of the ET1 Price Control Financial Model determined in accordance with the process set out in Parts A and B of [ETC26] (Annual Iteration Process for the ET1 Price Control Financial Model).

$RPIF_t$ is the price index adjustment factor, whether of a positive or negative value, and is derived in accordance with paragraph 20.7 of this condition.

TRU_t has the value zero in Relevant Year 2013-14, and in each subsequent Relevant Year means the amount of the revenue adjustment, whether of a positive or negative value, made in Relevant Year t in respect of the difference between the assumed value of the Retail Prices Index in Relevant Year $t-2$ and the actual value of the Retail Prices Index in Relevant Year $t-2$, and is derived in accordance with paragraph 20.8 of this condition.

20.7 For the purposes of paragraph 20.6 of this condition, $RPIF_t$ is derived in accordance with the following formula:

$$RPIF_t = RPIA_{t-2} \times (1 + GRPIF_{t-1}) \times (1 + GRPIF_t)$$

where:

$$RPIA_t = RPI_t / RPI_{2009-10}$$

$$GRPIF_t = (0.75 \times GRPIF_c) + (0.25 \times GRPIF_{c+1})$$

$$GRPIF_{t-1} = (0.75 \times GRPIF_{c-1}) + (0.25 \times GRPIF_c)$$

and:

RPI_t means the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months from April to March in Relevant Year t.

[Following definition will appear in the defined terms condition: Retail Prices Index means:

a) the general index of retail prices published by the Office for National Statistics each month in respect of all items; or b) if that index in respect of any month relevant for the purposes of the Special Conditions has not been published, such price index as the Authority may, after consultation with all licensees, determine to be appropriate; or c) if there is a material change in the basis of that index, such other index as the Authority may, after consultation with all licensees, determine to be appropriate.]

$GRPIF_c$ means the Retail Prices Index Forecast Growth Rate for calendar year c, where c denotes the calendar year in which Relevant Year t begins and the expressions c-1 and c+1 should be interpreted accordingly. In each such case the Retail Prices Index Forecast Growth Rates for calendar year c-1, c and c+1 are taken from the November edition of the HM Treasury publication "Forecasts for the UK Economy", in Relevant Year t-1.

[Following definition will appear in the defined terms condition: Retail Prices Index Forecast Growth Rate means:

a) the growth rate (for the avoidance of doubt the growth rate is presented as a percentage) as defined as the "New forecasts (marked *)" in the HM Treasury "Forecasts for the UK Economy" publication, published in the November of each year; or b) if that index in respect of any year has not been published, such index as the Authority may, after consultation with the licensees, determine to be appropriate; or c) if there is a material change in the basis of that index, such other index as the Authority may, after consultation with the licensees, determine to be appropriate.]

20.8 For the purposes of paragraph 20.6 of this condition, TRU_t is derived in accordance with the following formula:

$$TRU_t = ((RPIA_{t-2} - RPIF_{t-2})/RPIA_{t-2}) \times REV_{t-2} \times PVF_{t-2} \times PVF_{t-1}$$

20.9 In the formula for the TRU_t term above:

PVF_t means the present value adjustment term for Relevant Year t, and shall be calculated as one plus the Vanilla Weighted Average Cost of Capital as derived by the Authority for Relevant Year t and the expressions t-1 and t-2 should be interpreted accordingly.

REV_{t-2} means the amount (in 2009-10 prices), for Relevant Year t-2, of the combined value of all Special Condition revenue adjustments that are indexed by the Retail Prices Index, and is derived in accordance with the following formula:

$$REV_{t-2} = (BR_{t-2} + IPTIRG_{t-2} + FTIRG_{t-2} + ETIRG_{t-2})/RPIF_{t-2} - RBE_{t-2} - LFE_{t-2} - ITA_{t-2}$$

where:

BR_{t-2} means the amount of Base Transmission Revenue in Relevant Year t-2 calculated using the formula set out in Part C of this condition.

IPTIRG_{t-2} means the amount of the annual preconstruction and contingency revenue allowance in Relevant Year t-2 and is represented by the amount set out in Part X of [ETC 15].

FTIRG_{t-2} means the amount of the annual construction revenue allowance in Relevant Year t-2 and is represented by the amount set out in Part X of [ETC 15].

ETIRG_{t-2} means the amount of the annual incentive revenue allowance in Relevant Year t-2 and is represented by the amount set out in Part X of [ETC 15].

RBE_{t-2} means the amount of the allowance in respect of the prescribed rates (or any equivalent tax or duty replacing them) in Relevant Year t-2 and is represented by the amount set out in Appendix 1 of [ETC 21].

LFE_{t-2} means the amount of the licence fee allowance in Relevant Year t-2 and is represented by the amount set out in Appendix 2 of [ETC 21]. [NGET only]

ITA_{t-2} means the amount of the Inter-transmission system operator compensation mechanism allowance in Relevant Year t-2 and is represented by the amount set out in Part F of [ETC 21]. [NGET only]

Part D: Calculation of outputs incentive revenue adjustment (OIP)

20.10 For the purposes of the Principal Formula, the amount of OIP_t is derived in accordance with the following formula:

$$OIP_t = RI_t + SSO_t + SFI_t + EDR_t$$

20.11 In the formula for the OIP_t term above:

- RI_t means the amount of the revenue adjustment made in Relevant Year t reflecting the licensee's performance against a transmission network reliability incentive as derived in accordance with [ETC2] (Reliability Incentive Adjustment in Respect of Energy Not Supplied).
- SSO_t means the amount of the revenue adjustment made in Relevant Year t reflecting the licensee's performance in relation to its stakeholder satisfaction as derived in accordance with [ETC 24] (Incentive adjustments relating to the licensee's Stakeholder Satisfaction Output).
- SFI_t means the amount of the revenue adjustment made in Relevant Year t reflecting the licensee's performance in relation to its SF_6 Gas Emission Incentive Scheme as derived in accordance with [ETC25] (Incentive in Respect of Sulphur Hexafluoride (SF_6) Gas Emissions).
- EDR_t means the amount of the revenue adjustment made in Relevant Year t reflecting the licensee's performance under the Environmental Discretionary Reward Scheme as derived in accordance with [ETC 17] (Adjustment in Respect of the Environmental Discretionary Reward Scheme).

Part E: Calculation of innovation revenue adjustment (II)

20.12 For the purposes of the Principal Formula, the amount of II_t is derived in accordance with the following formula:

$$II_t = NICF_t + NIA_t$$

20.13 In the formula for the II_t term above:

$NICF_t$ means the amount of the revenue adjustment made in Relevant Year t in respect of the allowance given under the Network Innovation Competition as derived in accordance with [ETC 10] (The Network Innovation Competition). [NGET only]

NIA_t means the amount of the revenue adjustment made in Relevant Year t in respect of the Network Innovation Allowance is derived in accordance with [ETC 11] (The Network Innovation Allowance).

Part F: Calculation of the correction term (K)

[Final drafting of this section dependent on the outcome of the 'mitigating network charging volatility arising from the price control settlement (52/12)' consultation.]

20.14 For the purposes of the Principal Formula, K_t is derived from the following formula:

$$K_t = (TNR_{t-1} - TO_{t-1}) \times \left[1 + \frac{(I_t + PR_t)}{100} \right]$$

where:

TNR_{t-1} means the [Transmission Network Revenue/Regulated Transmission Revenue (as defined in [ETC19] (Definitions for the Special Conditions) in respect of the Relevant Year t-1. The only exception is the Relevant Year commencing 1 April 2013 where TNR_{t-1} shall be the [Transmission Network Revenue/Regulated Transmission Revenue in respect of the Relevant Year commencing 1 April 2012 as defined in special condition D1 (NGET) /special condition J1 (SHETL/SPTL)] of this licence in force at 31 March 2012.

TO_{t-1} means the [Maximum Revenue/Allowed Transmission Owner Revenue in Relevant Year t-1 as calculated in Part B of this condition. The only exception is the Relevant Year commencing 1 April 2013 where TO_{t-1} shall be the [Maximum Revenue/Allowed Transmission Owner Revenues calculated in special condition D2 (NGET) /special condition J2 (SHETL/SPTL) of this licence in force at 31 March 2012.

I_t means the Average Specified Rate in Relevant Year t.

[We currently intend that following definition will appear in the defined terms condition: means the average value of the Bank of England's Official Bank Rate during the period in respect of which the calculation in question falls to be made. Currently licence definition is: "means the average of the daily base rates of Barclays Bank plc current from time to time during the period in respect of which the calculation falls to be made."]

PR_t means the interest rate adjustment in Relevant Year t as calculated using the formula set out in Part G of this condition.

Part G: Interest adjustment for over and under recoveries of revenue

20.15 [to be completed following outcome of our consultation]

Part H: Treatment of charges in the event of over recovery

20.16 [to be completed following outcome of our consultation]

Part I: Treatment of charges in the event of under recovery

20.17 [to be completed following outcome of our consultation]

20.18 Appendix 1 follows immediately below.

Appendix 1

Values for the PU term (2009-10 prices) by licensee

(see paragraph 20.6 of this condition)

| Licensee | PU Value (£m) [SPTL&SHETL] TOPU Value (£m) [NGET] | | | | | | | |
|----------------------------------------|------------------------------------------------------|---------|---------|---------|---------|---------|---------|---------|
| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
| National Grid Electricity Transmission | x.x | x.x | x.x | x.x | x.x | x.x | x.x | x.x |
| Scottish Hydro Electric Transmission | x.x | x.x | x.x | x.x | x.x | x.x | x.x | x.x |
| Scottish Power Transmission | x.x | x.x | x.x | x.x | x.x | x.x | x.x | x.x |

[ETC 21] Special Condition [x]. Restriction of Transmission Network

Revenue: Calculation of the allowed pass-through items

Introduction

- 21.1 The purpose of this condition is to provide for the calculation of the amount of the term PT (the allowed pass-through term) that applies in [ETC20] (Restriction of Transmission Activity Charges).
- 21.2 The effect of the application of the PT term in [ETC20] is to ensure that the level of the licensee's allowed transmission owner revenue as calculated in accordance with that condition reflects certain costs that can be passed through to users.

Part A: Formula for Electricity Transmission allowed pass-through items (PT)

- 21.3 For the purposes of Part B of [ETC20], which establishes the calculation of Allowed Transmission Owner Revenue, the total amount of the PT term is derived in accordance with the following formula (in this condition, the Principal Formula):

$$PT_t = RB_t + LF_t + TPD_t + TSP_t + TSH_t + TOFTO_t + OFET_t + ITC_t + Term_t$$

- 21.4 In the Principal Formula:

RB_t means the amount (whether positive or negative) in regulatory year t , calculated using the formula set out in Part B below, representing the business rates adjustment.

LF_t means the amount (whether positive or negative) in regulatory year t , calculated using the formula set out in Part C below, representing the licence fee adjustment. [NGET only]

TPD_t means the temporary physical disconnection term, the value of which in the Relevant Year t shall be calculated in accordance with Part D below.

TSP_t means the amount notified to the licensee by SP Transmission Ltd or any successor company in relation to Relevant Year t pursuant to its electricity transmission licence. [NGET only]

TSH_t means the amount notified to the licensee by Scottish Hydro-Electric Transmission Ltd or any successor company in relation to Relevant Year t pursuant to its electricity transmission licence. [NGET only]

$TOFTO_t$ means the total of the amounts notified to the licensee by each offshore transmission owner in relation to Relevant Year t pursuant to their electricity transmission licences. [NGET only]

- OFET_t means the amount equal to the payments made, in total, by the licensee to electricity distributors with respect to charges for use of electricity distribution systems by offshore generating stations connected to those systems via embedded transmission systems. [NGET only]
- ITC_t means the amount (whether positive or negative) in regulatory year t, calculated using the formula set out in Part E below, representing the adjustment in respect of participation in the Inter-transmission system operator compensation mechanism. [NGET only]
- Term_t means the amount equal to the income received by the licensee in Relevant Year t in respect of users who terminate relevant bilateral agreements for connection and/or access rights to the national electricity transmission system before commencing use of the national electricity transmission system (and is net of any amounts that are treated as capital contributions). [NGET only]

Part B: Calculation of the business rates adjustment term (RB)

- 21.5 For the purposes of the Principal Formula, but subject to paragraph 21.7, RB_t is derived in accordance with the following formula:

$$RB_t = RBA_t - (RBE_t \times RPIF_t)$$

- 21.6 In the formula for the RB term above:

RBA_t means the amount payable by the licensee, in regulatory year t prices, in respect of non-domestic rates.

RBE_t means the amount of the allowance in respect of non-domestic rates (or any equivalent tax or duty replacing them) at Relevant Year 2009/10 price levels, and is represented by the amount set out in Appendix 1 that applies to the licensee.

RPIF_t has the value given to it by Part C of [ETC20].

- 21.7 In any Relevant Year("the specific regulatory year") in which the revaluation, by The Valuation Office Agency in England and Wales or the Scottish Assessors Association in Scotland, of the assets of the Transmission Network for the purposes of setting non-domestic rates comes into effect, RB_t will have the value of zero in that year and in each subsequent regulatory year. The Authority, having satisfied itself that the licensee has used best endeavours to minimise the amount of the prescribed non-domestic rates (RBA_t), may direct that the formula set out in this Part B is to apply for the purposes of calculating the RB term in the specific Relevant Year and in each of the subsequent regulatory years.

Part C: Calculation of the licence fee adjustment term (LF) [NGET only]

21.8 For the purposes of the Principal Formula, LF_t is derived in accordance with the following formula:

$$LF_t = LFA_t - (LFE_t \times RPIF_t)$$

21.9 In the formula for the LF term above:

LFA_t means an amount, in Relevant Year t prices, in respect of licence fee payments that is equal to the payments, in total, made by the licensee in Relevant Year t , in accordance with its obligations under standard licence condition A4 (Payments to the Authority).

LFE_t means the amount of the licence fee allowance at Relevant Year 2009/10 price levels, and is represented by the amount set out in Appendix 2 that applies to the licensee.

$RPIF_t$ has the value given to it by Part C of [ETC20].

Part D: Calculation of the temporary physical disconnection term (TPD)

21.10 For the Relevant Year t , TPD_t is an amount equal to the costs incurred by the licensee in relation to interruption payments made by the system operator in the licensee's transmission area that are charged to the transmission licensee within each respective Relevant Year $t-1$ in accordance with the provisions of the STC.

21.11 Such costs must include any financing or other costs necessary to ensure that the financial position and performance of the licensee is, insofar as is reasonably practicable, the same as if those costs had not been incurred.

Part E: Calculation of the Inter-transmission System Operator compensation mechanism term (ITC) [NGET only]

21.14 For the purposes of the Principal Formula, ITC_t is an amount derived in accordance with the following formula:

$$ITC_t = ITP_t - (ITA_t \times RPIF_t)$$

21.15 In the formula for the ITC term above:

ITP_t means the compensation, whether of a positive or negative value, arising from the participation by Great Britain in the Inter-transmission system operator compensation mechanism as provided for in Article 13 of the Electricity Regulation (EC) No (714/2009).

ITA_t is the Inter-transmission system operator compensation mechanism allowance in 2009/10 prices, and has the value set out in Appendix 3.

$RPIF_t$ has the value given to it by Part C of [ETC20].

21.16 Appendices 1 and 2 follow immediately below.

APPENDIX 1: Prescribed rates allowance (£m, 2009/10 prices)

(see paragraph 21.6 relating to the RBE term)

| Electricity Transmission Licensee | RBE |
|------------------------------------------|------------|
| Electricity Transmission Licensee 1 | xx.xx |
| Electricity Transmission Licensee 2 | xx.xx |
| Electricity Transmission Licensee 3 | xx.xx |

APPENDIX 2: Licence fee allowance (£m, 2009/10 prices)

(see paragraph 21.9 relating to the LFE term)

| Electricity Transmission Licensee | LFE |
|------------------------------------------|------------|
| Electricity Transmission Licensee 1 | xx.xx |
| Electricity Transmission Licensee 2 | xx.xx |
| Electricity Transmission Licensee 3 | xx.xx |

APPENDIX 3: Inter-transmission system operator compensation mechanism allowance (£m, 2009/10 prices)

(see paragraph 21.9 relating to the ITA term)

| Electricity Transmission Licensee | ITA |
|------------------------------------------|------------|
| Electricity Transmission Licensee 1 | xx.xx |
| Electricity Transmission Licensee 2 | xx.xx |
| Electricity Transmission Licensee 3 | xx.xx |

[ETC 2] Special Condition [x]. Reliability Incentive Adjustment in Respect of Energy Not Supplied [NGET and SPTL]

[SHETL version for inclusion with Second Informal Licence Consultation.]

Introduction

1. The purpose of this condition is to calculate the term RI_t , whether positive or negative, reflecting the licensee's performance against a transmission network reliability incentive relating to energy not supplied for the purposes of Part D of [ETC20].

Part A: Adjustment arising from reliability incentive in respect of energy not supplied (RI)

2. The formula immediately below applies for the purpose of deriving the total amount of the term RI_t for each of the regulatory years beginning on 1 April 2013 and 1 April 2014:

$$RI_t = RILEG_t$$

where:

$RILEG_t$ is the combined adjustment reflecting the licensee's performance in each of the Regulatory Years beginning on 1 April 2011 and 1 April 2012, and is calculated from the application of the provisions of special condition [D5/J5] of this licence in the form in which that condition was in force at 31 March 2013. For all Regulatory Years, except that beginning on 1 April 2014, this term shall equal zero.

[This term is designed to capture the incentive under TPCR4 and Rollover]

3. The formula immediately below applies for the purpose of deriving the total amount of the term RI_t for each of the regulatory years beginning on 1 April 2015 and in each subsequent year:

Formula)

(the Principal

where:

$ENSA_{t-2}$ is the sum of the volumes of energy not supplied in all incentivised loss of supply events in Relevant Year $t-2$, as reported by the licensee in accordance with Special

Condition B15. Regulatory Instructions and Guidance [ETC74].

ENST_{t-2}

is the incentivised loss of supply volume target in Relevant Year t-2, as defined in table [x] below and, and has the value specified in table [x] below:

Table [x]: [xxxx]

| Relevant Year t | 2015 /16 | 2016/17 | 2017/18 | 2018 /19 | 2019 /20 | 2020 /21 | 2021 /22 | 2022 /23 |
|------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Incentive Period t-2 | 1 April 2013 to 31 March 2014 | 1 April 2014 to 31 March 2015 | 1 April 2015 to 31 March 2016 | 1 April 2016 to 31 March 2017 | 1 April 2017 to 31 March 2018 | 1 April 2018 to 31 March 2019 | 1 April 2019 to 31 March 2020 | 1 April 2020 to 31 March 2021 |
| ENST _{t-2} | TBA MWh | TBA MWh | TBA MWh | TBA MWh | TBA MWh | TBA MWh | TBA MWh | TBA MWh |

VOLL_{t-2}

is the value of lost load in Relevant Year t-2, which shall be calculated using the following formula in respect of each Relevant Year t:

(where VOLL is £[TBA] per MWh in 2009/10 prices).

RIDPA

is the maximum downside percentage adjustment, and shall be set at 3 per cent.

Max (A,B)

means the value that is equal to the greater of A and/or B.

BR_{t-2}

means the amount of Base Transmission Network Activity Revenue in Relevant Year t-2 and shall be calculated in accordance with Part [C] of [ETC 20] for that year.

TIRG_{t-2}

means value of Transmission Investment for Renewable Generation in Relevant Year t-2, calculated in accordance with [ETC15] Special Condition [x]. Transmission Investment for Renewable Generation.

RPIA_{t-2}

has the value given to it by Part C of [ETC 20].

4. For the purpose of facilitating the operation of the incentive provided for by this condition, the licensee must prepare and maintain a transmission reliability incentive methodology statement in accordance with the provisions of Part B (which has effect as part of this condition).

Part B: Methodology Statement

[Numbering to be amended in line with rest of licence]

- A1. The licensee must prepare and maintain a transmission reliability incentive methodology statement approved by the Authority that sets out the methodology by which the licensee will calculate the volume of energy not supplied arising from each incentivised loss of supply event. The licensee must have regard to the approaches taken by the other Transmission Licensees subject to this condition, and to the approved statement prescribed by standard condition C17 setting out criteria by which system availability, security and service quality of the national electricity transmission system may be measured. [This is intended to link to the C17 reporting requirements and to consistency of approach between transmission licensees.]
- A2. The licensee must use best endeavours to apply the methodology that is set out in the transmission reliability incentive methodology statement to calculate the volume of energy not supplied as a result of any incentivised loss of supply event.
- A3. Before revising the transmission reliability incentive methodology statement, the licensee must submit to the Authority a copy of the proposed revisions to that statement.
- A4. Unless the Authority otherwise directs within one month after receiving any proposed revisions to the transmission reliability incentive methodology statement, the licensee must take best endeavours to apply the methodology as revised when calculating the volume of energy not supplied as a result of any incentivised loss of supply event occurring after the end of that one month period.
- A4A [Will look to make this direction process consistent with other conditions] The Authority may direct that the value of ENST in any regulatory period be changed as a result of any proposed revisions to the methodology in order to ensure as far as possible that the measured performance of the licensee against this incentive is the same as if the revision to the measurement methodology had not taken place.
- A5 and A6. [To draft in alignment with SF6 condition] Where the licensee:
 - (a) considers that an event on the licensee's transmission system that has caused electricity not to be supplied to a customer has been wholly or partially caused by an exceptional event;
 - (b) has notified the Authority of that event within 14 days of its occurrence;

- (c) has provided details of the volume of unsupplied energy that it considers resulted from the exceptional event and such further information, if any, as the Authority may require in relation to that event; and
- (d) the Authority is satisfied that the event notified to it under subparagraph (b) is an exceptional event

the Authority may, by notice to the licensee, direct that, for the purpose of calculating the volume of energy not supplied for the relevant incentivised loss of supply event, the constituent data relevant to that event are to be adjusted as specified in that direction.

A7. For the purposes of paragraph A6, the adjustment directed by the Authority is to be based on the extent to which the Authority is satisfied that the licensee had taken best endeavours both to prevent the event having the effect of interrupting supply and to mitigate its effect (both in anticipation and subsequently).

A8. A direction issued by the Authority under paragraph A7, is of no effect unless the Authority has first:

- (a) given notice to the licensee that it proposes to issue the direction:
 - i. specifying the date on which it proposes that the direction to be issued should take effect;
 - ii. setting out the Authority's reasons for proposing to issue the direction; and
- (b) specifying the time (which must not be less than 28 days from the date of the notice) within which representations may be made; and
- (c) considered any representations in response to the notice that are duly made and not withdrawn.

Interpretation

[Format to be amended in line with rest of licence]

A10. For the purposes of this condition:

"Incentivised Loss of Supply Event" means any event on the licensee's transmission system that causes electricity not to be supplied to a customer, subject to the following exclusions:

- (a) any energy not supplied to customers that have requested a lower standard of connection than that provided in the National Electricity Transmission System Security and Quality of Supply Standard (or such other standard of planning and operation as

the Authority may approve from time to time and with which the licensee may be required to comply);

- (b) any energy not supplied resulting from a shortage of available generation;
- (c) any energy not supplied resulting from a de-energisation or disconnection of a user's equipment under an event of default as defined in the CUSC;
- (d) any energy not supplied resulting from a user's request for disconnection in accordance with the Grid Code;
- (e) any energy not supplied resulting from emergency de-energisation by a user as defined in the CUSC;
- (f) any energy not supplied resulting from an emergency de-energisation or disconnection of a user's equipment necessary to ensure compliance with the Electricity Safety, Quality and Continuity Regulations 2002, as amended from time to time, or otherwise to ensure public safety;
- (g) any event of less than three minutes' duration;
- (h) any energy not supplied as a result of a delay in the national electricity transmission system operator responding to a communication from the licensee; and
- (i) energy that would otherwise have been unsupplied that is made available from a connected distribution system [this term to be defined].

A11. For the purpose of paragraph A6, an "exceptional event" means an event or circumstance that is beyond the reasonable control of the licensee and which results in or causes electricity not to be supplied to a customer and includes (without limitation) an act of the public enemy, war declared or undeclared, threat of war, terrorist act, revolution, riot, insurrection, civil commotion, public demonstration, sabotage, act of vandalism, fire (not related to weather), any severe weather event resulting in more than [X] faults being recorded by the licensee on the licensee's transmission system in any 24 hour period, governmental restraint, Act of Parliament, any other legislation, bye law or directive (not being any order, regulation or direction under section [32], [33],[34] and[35] [Note: we believe that the numbers of these sections have changed in the most recent version of the Act. Further work is needed to ascertain the correct numbers] of the Act) or decision of a Court of competent authority or the European Commission or any other body having jurisdiction over the activities of the licensee provided that lack of funds shall not be interpreted as a cause beyond the reasonable control of the licensee.

[ETC24] Special Condition [x]. Incentive adjustments relating to the licensee's Stakeholder Satisfaction Output

Introduction

- 24.1 The purpose of this condition is to set out the mechanism for calculating the value of the licensee's Stakeholder Satisfaction Output (SSO) term.
- 24.2 The effect of the application of the SSO term in [ETC 20] Special condition [x] is to adjust the amount of the Outputs Incentive Payment (OIP) term in that condition in order to reflect the licensee's performance in relation to its Stakeholder Satisfaction Output.

Part B: Formula for the Stakeholder Satisfaction Output term

- 24.3 For the purposes of Part D of [ETC 20] Special condition [x], the value of the SSO term is derived in accordance with the following formula:

$$SSO_t = SER_t + SSS_t$$

- 24.4 In the formula for the SSO term above:

SSO_t means the value of an adjustment to the amount of the licensee's Outputs Incentive Payment (OIP_t) under Part D of [ETC 20] Special condition [x] in respect of the licensee's performance in relation to its Stakeholder Satisfaction Output in Relevant Year t.

SER_t (the Stakeholder Engagement Reward term) means a positive adjustment (if any) that may be determined by the Authority pursuant to the provisions of Part B below in recognition of the licensee's demonstration that its effective stakeholder engagement has led to exceptionally positive outcomes for its stakeholders in respect of performance in Relevant Year t-2.

SSS_t (the Stakeholder Satisfaction Survey term) means the adjustment that is required in respect of the licensee's survey performance in Relevant Year t in relation to the Target Stakeholder Satisfaction Survey Score in that year, and is calculated in accordance with the provisions of Part D below.

Part B: Determination of the stakeholder engagement reward

- 24.5 The maximum value of the SER term for each Relevant Year that can be determined by the Authority for the licensee is to be derived in accordance with the following formula:

$$SER_t \text{ max} = 0.5 \times (BR_{t-2} + TIRG_{t-2})$$

- 24.6 The maximum value is to be derived in accordance with the provisions of Part [C] of [ETC 20] Special condition [x].
- 24.7 For Relevant Years 2013/14 and 2014/15, SER_t will equal zero.

- 24.8 The licensee may apply to be awarded a Stakeholder Engagement Reward in respect of Relevant Year t-2 in accordance with such procedures, timescales, and minimum eligibility criteria as may be set out in the Stakeholder Engagement Reward Guidance that is published on the Ofgem’s website (and that may be modified from time to time in accordance with the provisions of Part C below).
- 24.9 In addition to making provision for the matters mentioned in paragraph 24.8, the Stakeholder Engagement Reward Guidance may also make provision for:
- (a) the appointment, by the Authority, of persons who will allocate the Stakeholder Engagement Reward; and
 - (b) the manner and process by which such assessments will be made and any rewards will be awarded.

Part C: Modification of the Stakeholder Engagement Reward Guidance

[To make modification process consistent across all licence conditions]

- 24.10 The Stakeholder Engagement Reward Guidance may be modified by the Authority by direction following the procedure set out in this Part C.
- 24.11 A direction issued by the Authority under paragraph 24.10 is of no effect unless the Authority has first:
- (a) given Notice to all licensees in whose licence this condition has effect, that it proposes to modify the Guidance:
 - (i) specifying the date on which it proposes that the provisions of the modified Guidance should take effect;
 - (ii) setting out the text of the modified Guidance and the Authority’s reasons for the proposed modifications;specifying the time (which must not be less than a period of 28 days from the date of the Notice) within which representations may be made; and
 - (b) considered any representations in response to the Notice that are duly made and not withdrawn.

Part D: Adjustments arising from the stakeholder satisfaction survey

- 24.13 The amount of the SSS term (relating to the stakeholder satisfaction survey) is derived in accordance with the following formula:

$$SSS_t =$$

[Ofgem is working with TOs to develop stakeholder satisfaction surveys, supporting information and to consider how the financial incentive will apply. Formula will need to set out max/min of incentive]

Part E: Interpretation

[We intend to bring the format and presentation of the Interpretation section consistent across the licence]

24.14 The term “stakeholder”, wherever it appears in this condition and in whatever context, refers to the general body of persons (including but not limited to customers or other actual users of the licensee’s network) who are materially affected by the licensee’s operations. [New element of this definition to be added to define customers. This is because responses from customers might need to be differentiated from stakeholders in the survey results]

24.15 [This is an early draft which we would expect to be consistent with ED and GD] For the purposes of determinations made by the Authority pursuant to the provisions of Part B above, “exceptionally positive outcomes” means outcomes that:

- (a) result directly or indirectly from the licensee’s ongoing engagement with its stakeholders;
- (b) serve the interests of the licensee’s stakeholders as a whole, or the interests of specific groups of them, by developing and implementing best practice that is not otherwise recognised, required, or recompensed under any other provision of the Price Control Conditions; and
- (c) do so to an extent or in a manner that appears to the Authority to justify the award to the licensee of a stakeholder engagement reward.

24.16 [In this condition, Target Stakeholder Satisfaction Survey Score means – to be completed].

[ETC25] Special condition[x]. Incentive in Respect of Sulphur Hexafluoride (SF₆) Gas Emissions [NGET and SPTL only]

[SHETL version for inclusion with Second Informal Licence Consultation.]

Introduction

1. The purpose of this condition is to calculate the value of the Sulphur Hexafluoride Incentive term (SFI_t) to reflect the licensee's performance in relation to actual SF₆ gas emissions from the licensee's transmission system compared to the baseline level of SF₆ gas emissions for Relevant Year t-2.
2. The effect of the application of the Sulphur Hexafluoride Incentive term in Special Condition [ETC20] is to adjust the Output Incentive Payment (OIP_t) term in that condition.

Part A: Formula to calculate the Sulphur Hexafluoride Incentive

3. For the regulatory years beginning on 1 April 2015 and in each subsequent regulatory year, the term SFI_t is derived in accordance with the following formula:

$$SFI_t = (CTE_{t-2} - ALE_{t-2}) * CF * NTPC_{t-2}$$

where:

- CTE_{t-2} means the calculated target SF₆ gas emissions in kilograms from the licensee's transmission system in Relevant Year t-2 as calculated in paragraph 5;
- ALE_{t-2} means the actual SF₆ gas emissions in kilograms from the Licensee's transmission system in Relevant Year t-2 as calculated by the Licensee in accordance with the statement of methodology statement prepared by the Licensee in Part B;
- CF means the conversion factor from kilos of SF₆ to tonnes of carbon dioxide equivalent emissions and has a value of 23.9; and
- NTPC_{t-2} means the relevant price per one tonne of non-traded carbon dioxide emissions in Relevant Year t-2 as set out in Table 1 below.

Table 1: Non-traded price of carbon dioxide

| £ (2009 /10 prices) | 2013/ 14 | 2014/ 15 | 2015/ 16 | 2016/ 17 | 2017/ 18 | 2018/ 19 | 2019/ 20 | 2020/ 21 |
|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| NTPC | | | | | | | | |

4. The following formula shall be used to calculate the value of the CTE_{t-2} term for the purposes of paragraph 4:

(a) For the Relevant Year beginning on 1 April 2015:

$$CTE_{t-2} = \text{Base} + \text{Add}_{t-2} - \text{Dsp}_{t-2}$$

(b) For the Relevant Year beginning on 1 April 2016 and each subsequent regulatory year:

$$CTE_{t-2} = CTE_{t-3} + \text{Add}_{t-2} - \text{Dsp}_{t-2}$$

Where:

BASE means the target SF₆ gas emissions (converted into kilograms) from the licensee's transmission system that applied for the Relevant Year 2012/13;

ADD_{t-2} means the expected additional SF₆ gas emissions in kilograms from new SF₆ assets commissioned for service on the licensee's transmission system in Relevant Year t-2 as calculated by the Licensee in accordance with the statement of methodology statement prepared by the Licensee in Part B; and

DSP_{t-2} means the expected SF₆ reduction in emissions in kilograms from SF₆ assets decommissioned from service on the licensee's transmission system in Relevant Year t-2 as calculated by the Licensee in accordance with the statement of methodology statement prepared by the Licensee in Part B.

5. The licensee will report annually on ALE, ADD and DSP in accordance with the Regulatory Instructions and Guidance.

Part B: Methodology statement in respect of SF₆ gas leakage

6. The licensee must submit to the Authority on or before [31 October 2013] (or such later date as the Authority may direct) a statement of methodology ("the statement") that is consistent with best industry practice for determining actual and expected leakage of SF₆ gas from its transmission assets.

7. The statement must set out the methodology by which the licensee will determine the leakage of SF₆ gas from its transmission assets for the purposes of determining ALE, ADD and DSP.
8. Unless the Authority otherwise directs within two months of the date of submission of the statement by the licensee in accordance with paragraph [6], the licensee must use best endeavours to apply the methodology set out in that statement.
9. Before revising the methodology set out in the statement, the licensee must submit a copy of the proposed revisions to the Authority.
10. Unless the Authority otherwise directs within one month after receiving the proposed revisions under paragraph [10], the licensee must use best endeavours to apply the methodology in accordance with the proposed revisions.

Part C: Notification and treatment of exceptional events

11. Where the Licensee considers that an event on the licensee's transmission system that causes leakage of SF₆ gas has been wholly or partly caused by an exceptional event the Licensee must:
 - (a) notify the Authority of that event as soon as reasonably practicable but at the latest 14 days after its occurrence; and
 - (b) provide details of the event and such further information, if any, as the Authority may require in relation to it.
12. Where the Authority is satisfied that the event is an exceptional event, the Authority may, by notice to the licensee, direct that the value of ALE in Relevant Year t-2 is to be adjusted as specified in that direction.
13. The Authority's power to direct the value of any adjustment to ALE in Relevant Year t-2 under paragraph 12 includes the power to modify the value of any proposed adjustment notified to the Authority by the licensee in that respect.
14. Any adjustment directed under paragraph 12 must take account of the extent to which the Authority is satisfied that the licensee had used reasonable endeavours to prevent the event from resulting in the leakage of SF₆ gas and to mitigate its effect (both before the event and after it occurred).
15. A direction issued by the Authority under paragraph 12, is of no effect unless the Authority has first:
 - (a) given notice to the licensee that it proposes to issue the direction:

(i) specifying the date on which it proposes that the direction to be issued should take effect;

(ii) setting out the Authority's reasons for proposing to issue the direction; and

(iii) specifying the time (which must not be less than 28 days from the date of the notice) within which representations may be made; and.

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

Part D: Interpretation

16. For the purposes of Part C of this condition, an "exceptional event" means an event or circumstance that is beyond the reasonable control of the licensee and results in, causes, or prohibits the timely prevention of the leakage of SF₆ gas (and includes any event or circumstance where the risk of significant danger to the public requires the licensee to prioritise health and safety objectives over the reduction of leakage of SF₆ gas at a particular site).

[ETC17] Special Condition [x]. Adjustment in Respect of the Environmental Discretionary Reward Scheme

Introduction

1. The purpose of this condition is to:
 - a. establish arrangements, to be known as the Environmental Discretionary Reward Scheme, for determining the amount of the Environmental Discretionary Reward (EDR) term; and
 - b. make provision for arrangements relating to administration, governance and revision of the EDR Scheme.
2. The effect of the application of the EDR term in [ETC 20] is to adjust upwards the amount of the Outputs Incentive Payment (OIP) term in that condition [to be consistent across the licence] in order to reflect the Licensee's performance in relation to the EDR Scheme.

Part A: Function of the EDR scheme

3. The function of the EDR Scheme is to encourage the Licensee to achieve high standards in environmental management as well as facilitate the industry to move towards a low carbon energy system where it can do so effectively and provide value for money to consumers.
4. Under the EDR Scheme the Authority shall determine and approve the amount of the EDR term in Relevant Year t in accordance with Parts B below and subject to the relevant provisions of the EDR Scheme Guidance.

Part B: Determination of the amount of the EDR term

5. In each Relevant Year t, as provided for by the EDR Scheme Guidance, the Authority will determine and, by direction given to the licensee, specify in accordance with the appropriate provisions set out in the EDR Scheme Guidance the amount of the EDR_t for the Licensee for Relevant Year t-2.
6. For regulatory years 1 and 2 (which will begin on 1 April 2013 and 1 April 2014 respectively) EDR_t will equal zero.
7. The submission requirements, assessment, and implementation of, and other relevant matters relating to, the EDR Scheme are provided for in or pursuant to the EDR Scheme Guidance issued by the Authority under Parts C and D below.

Part C: The EDR Scheme Guidance

8. The EDR Scheme Guidance is a document published, and from time to time revised by the Authority in accordance with Part D for the purposes of setting out the submission requirements, assessment process and procedures, administration, and governance of the EDR Scheme.
9. The EDR Scheme Guidance may, without limitation, make appropriate provision about or impose requirements in respect of:
 - a. the Licensee's submission to the Authority under the EDR Scheme including the areas to be covered, the type of information and evidence to be provided, and the format of the submission;
 - b. the Authority's process for assessing the Licensee's submission, including assessment criteria, the scoring associated with the different performance areas and the role of an expert panel;
 - c. the process and procedures by which the Authority will determine the amount of the EDR term for Relevant Year t including any reward allocation rules in relation to the Licensee's overall level of performance;
 - d. the procedures by which the Authority will notify the Licensee with respect to any direction in relation to the amount of the EDR term; and
 - e. any other matters relating to the administration and governance of the EDR Scheme.
10. To be eligible to for payment under the EDR Scheme, the licensee must follow the applicable provisions of the EDR Scheme Guidance.

Part D: Modification of the EDR Scheme Guidance

11. The EDR Scheme Guidance may be modified by the Authority by direction.
12. A direction issued by the Authority under paragraph 11 is of no effect unless the Authority has first:
 - (a) given Notice to all licensees in whose licence this condition has effect that it proposes to modify the Guidance:
 - (i) specifying the date on which it proposes that the provisions of the modified Guidance should take effect;
 - (ii) setting out the text of the modified Guidance and the Authority's reasons for proposing to modify it; and
 - (iii) specifying the time (which must not be less than a period of 28 days from the date of the Notice) within which representations may be made; and

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

**[ETC10] Special Condition [x]. The Network Innovation Competition
[NGET only]**

Introduction

- 10.1 The purpose of this condition is to establish arrangements known as the Network Innovation Competition (NIC) that will enable the Authority to determine the amount of the NIC term that is to apply in calculating the value of the II term in Part E of [ETC20] (Restriction of Transmission Activity Charges) for the purposes of incentivising the development of environmentally sustainable electricity networks.
- 10.2 This condition also makes provision for arrangements relating to the regulation, administration, and governance of the NIC.

Part A: Function of the Network Innovation Competition (NIC)

- 10.3 The function of the NIC is to enable the licensee to fund Eligible NIC Projects by means of revenues collected by the licensee through its Transmission Use of System Charges pursuant to the NIC Funding Mechanism described in Part B below as varied, where appropriate, by the Funding Return Mechanism described in Part C below.
- 10.4 The amount of the NICF term that is to be incorporated into the Allowed Transmission Network Revenue in accordance with the provisions of [ETC20] in respect of any Relevant Year comprises the total of the allowed revenues of the licensee recovered under the NIC Funding Mechanism in that year.
- 10.5 Accordingly, for the purposes of Part E of [ETC20], which provides for the calculation of the licensee's II term in Part E, the amount of the NIC adjustment in any Relevant Year is from Parts B to D below and subject to the relevant provisions of the NIC Governance Document.

Part B: The NIC Funding Mechanism

- 10.6 The NIC Funding Mechanism is the mechanism by which the licensee recovers the amount of authorised NIC Funding in any Relevant Year and apportions that amount between the licensee and all other transmission licensees as appropriate.
- 10.7 The NIC Funding is the total amount of funding authorised by the Authority for the licensee and all other transmission licensees, in accordance with the provisions of the NIC Governance Document, for the purpose of funding Eligible NIC Projects.

Part C: The Funding Return Mechanism

- 10.8 The Funding Return Mechanism provides for the recovery from the licensee and from all other transmission licensees, in each case to such extent (if any) as may be relevant, of:

- (a) Halted Project Revenues;
 - (b) Disallowed Expenditure; and
 - (c) Returned Royalty Income.
- 10.9 The Funding Return is the total amount (in respect of the licensee and all other transmission licensees) of any amounts arising under paragraph 10.8.
- 10.10 Halted Project Revenues are revenues received (whether by the licensee or any other transmission licensee) under the NIC Funding Mechanism in respect of an Eligible NIC Project which have not yet been spent, or otherwise committed, at the time that the Authority requires that project to be halted in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.
- 10.11 Disallowed Expenditure is revenue received (whether by the licensee or any other transmission licensee) under the NIC Funding Mechanism that the Authority determines has not been spent in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.
- 10.12 Returned Royalty Income is revenue earned from intellectual property generated through Eligible NIC Projects (whether undertaken by the licensee or any other transmission licensee), less Directly Attributable Costs, and that is payable to customers under the NIC Funding Mechanism, as calculated in accordance with the provisions of the NIC Governance Document.
- 10.13 For the purposes of paragraph 10.12, Directly Attributable Costs are costs relating to the maintenance and management of intellectual property generated through Eligible NIC Projects (whether undertaken by the licensee or any other transmission licensee) that have not been otherwise remunerated by Transmission Network Use of System Charges, Excluded Services, or the NIC Funding Mechanism.

Part D: Determination of the amount of the NICF term

- 10.14 $NICF_t$ is the amount for Relevant Year t that is to be recovered by the licensee on behalf of all transmission licensees, as determined by the Authority under paragraph 10.15 in relation to:
- (a) the NIC Funding specified for that year; and
 - (b) any Funding Return specified for that year.
- 10.15 In each Relevant Year t , as provided for by the NIC Governance Document, the Authority will calculate and then, by direction given to the licensee and all other transmission licensees, will specify in accordance with the appropriate provisions set out in the NIC Governance Document:

- (a) the value for $NICF_t$ for the licensee (being the amount, if any, to be recovered by the licensee in order to contribute to its own and other transmission licensees' NIC Funding for that Regulatory Year);
- (b) the net amounts that are to be transferred between the licensee and other transmission licensees in order to ensure that each licensee receives an amount (if any) equal to the proportion of the NIC Funding for that Relevant Year that is attributable to its Eligible NIC Projects (adjusted to take into account the amount of any Funding Return); and
- (c) the manner in which and the timescale over which the net amounts referred to in paragraph (b) are to be transferred.

10.16 The licensee must comply, to the extent that is applicable to it, with any direction issued by the Authority under paragraph 10.15.

Part E: The NIC Governance Document

10.18 The Authority will issue, and may from time to time revise, a document, to be known as the NIC Governance Document, for purposes connected with the regulation, governance, and administration of the Network Innovation Competition.

10.19 The NIC Governance Document may, without limitation, make appropriate provision about or impose requirements in respect of:

- (a) the eligibility criteria to be applied by, and information to be provided to, the Authority in relation to the assessment and approval of Eligible NIC Projects;
- (b) the criteria against which the funding of such projects will be assessed and approved (where necessary);
- (c) the process and procedures that will be in place for the assessment, approval, and financing of such projects' funding (where necessary);
- (d) arrangements to ensure that relevant matters learnt from the implementation of Eligible NIC Projects can be captured and disseminated;
- (e) the nature of the reporting obligations in respect of such projects (which may include reporting in respect of the funding and the completion of such projects, as well as reporting on compliance with this condition and the provisions of the NIC Governance Document);
- (f) arrangements relating to the treatment of intellectual property rights including Returned Royalty Income in respect of Eligible NIC Projects; and
- (g) any other matters relating to the regulation, governance, or administration of the NIC.

10.20 The licensee must comply with the applicable provisions of the NIC Governance Document as if it formed part of this condition.

Part F: Procedure for issuing the NIC Governance Document

10.21 Before issuing the NIC Governance Document under this condition, the Authority, by Notice given to the licensee and all other transmission licensees, must:

- (a) state that it proposes to issue the document, and specify the date on which it proposes that the document should take effect;
- (b) set out the text of the document and the Authority's reasons for proposing to issue it; and
- (c) specify the date (which must not be less than a period of 28 days from the date of the Notice) within which representations with respect to the proposal may be made.

10.22 The Authority must consider any representations that are duly made and not withdrawn.

10.23 The requirements of paragraphs 10.21 and 10.22 may be satisfied by action taken before, as well as by action taken after, the commencement of this condition.

10.24 In paragraph 10.21, "issuing the NIC Governance Document" includes issuing any revision of the document, and the procedure provided for under that paragraph will apply to any such revision.

Part G: Interpretation

10.25 For the purposes of this condition:

| | |
|------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Disallowed Expenditure | has the meaning given to that term in paragraph 10.11 of this condition. |
| Directly Attributable Costs | has the meaning given to that term in paragraph 10.13 of this condition. |
| Eligible NIC Project | means a project undertaken by the licensee or any other transmission licensee that appears to the Authority to satisfy such requirements of the NIC Governance Document as are necessary to enable the project to be funded under the NIC Funding Mechanism. |
| Funding Return | has the meaning given to that term in paragraph 10.9 of this condition. |

| | |
|---------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Funding Return Mechanism | has the meaning given to that term in paragraph 10.8 of this condition. |
| Halted Project Revenues | has the meaning given to that term in paragraph 10.10 of this condition. |
| NIC Funding | has the meaning given to that term in paragraph 10.7 of this condition. |
| NIC Funding Mechanism | has the meaning given to that term in paragraph 10.6 of this condition. |
| Returned Royalty Income | has the meaning given to that term in paragraph 10.12 of this condition. |
| NIC Governance Document | means the document issued by the Authority under Part E of this condition, subject to the requirements of Part F, relating generally to the Network Innovation Competition and including matters relating to the NIC Funding Mechanism. |
| Project Direction | means a direction issued by the Authority pursuant to the NIC Governance Document setting out the terms to be followed in relation to an Eligible NIC Project as a condition of its funding under the NIC Funding Mechanism. |
| Transmission Network Use of System Charges | <i>[to be defined elsewhere in the Special Conditions]</i> |

- 10.25. Expressions defined in paragraph 10.24 above are to be read and given effect subject to any further explanation or elaboration that might be set out in the NIC Governance Document in relation to such expressions

**[ETC10] Special Condition [x]. The Network Innovation Competition
[SPTL and SHETL]**

Introduction

- 10.1 The purpose of this condition is to establish arrangements known as the Network Innovation Competition (NIC) that are designed to incentivise the development of environmentally sustainable electricity networks.
- 10.2 This condition also makes provision for arrangements relating to the regulation, administration, and governance of the NIC.

Part A: Function of the Network Innovation Competition (NIC)

- 10.3 The function of the NIC is to enable the licensee to fund Eligible NIC Projects by means of payments received from the System Operator in accordance with the determination process described in Part B below as varied, where appropriate, by the Funding Return Mechanism described in Part C below.

Part B: The NIC Funding Mechanism

- 10.5. The NIC Funding Mechanism is the mechanism by which the licensee receives the amount of authorised NIC funding in any Relevant Year from the system operator, less any Funding Return as described in Part B.

Part B: The Funding Return Mechanism

- 10.6 The Funding Return Mechanism relates to payments to be made by the licensee to the System Operator, in each case to such extent (if any) as may be relevant, of:
- (a) Halted Project Revenues;
 - (b) Disallowed Expenditure; and
 - (c) Returned Royalty Income.
- 10.7 The Funding Return is the total amount, in respect of the licensee, of any amounts arising under paragraph 10.8.
- 10.8 Halted Project Revenues are any revenues received by the licensee from the System Operator under the NIC Funding Mechanism in respect of an Eligible NIC Project which have not yet been spent, or otherwise committed, at the time that the Authority requires that project to be halted in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.
- 10.9 Disallowed Expenditure is any revenue received by the licensee from the System Operator under the NIC Funding Mechanism that the Authority determines has not been spent in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.

- 10.10 Returned Royalty Income is revenue earned from intellectual property generated through Eligible NIC Projects undertaken by the licensee, less Directly Attributable Costs, and that is payable to customers under the NIC Funding Mechanism, as calculated in accordance with the provisions of the NIC Governance Document.
- 10.11 For the purposes of paragraph 10.12, Directly Attributable Costs are costs relating to the maintenance and management of intellectual property generated through Eligible NIC Projects undertaken by the licensee that have not been otherwise remunerated by Use of System Charges, Excluded Services, or the NIC Funding Mechanism.
- 10.12 In each Relevant Year t , in accordance with the appropriate provisions of the NIC Governance Document, the Authority will calculate and then, by direction given to the licensee, will specify:
- (a) the amount of any Funding Return that the licensee must pay to the System Operator; and
 - (b) the manner in which and the timescale over which that amount is to be so paid.
- 10.13 The licensee must comply with any direction that is issued by the Authority under paragraph 10.14.

Part C: Determination of the amount of the NIC term

- 10.14 NIC_t is the net amount of NIC Funding less any Funding Return for the Relevant Year t that is to be paid to the licensee by the System Operator, or vice versa, in compliance with the determination made for that purpose in a direction issued by the Authority pursuant to the provisions of Part D of [ETC10] (The Network Innovation Competition) in the transmission licence held by the System Operator (“the NIC Funding Mechanism”).
- 10.15 The NIC Funding to which paragraph 10.5 refers is the proportion (if any) of total NIC Funding raised by the System Operator from its Transmission Use of System Charges in accordance with the NIC Funding Mechanism that the Authority determines is to be allocated to the licensee in respect of its Eligible NIC Projects, as adjusted by the amount of any Funding Return (as to which, see Part C below).
- 10.16 The direction with respect to each Relevant Year t that the Authority issues to the Licensee pursuant to the NIC Funding Mechanism will, in accordance with the appropriate provisions of the System Operator’s transmission licence, and the NIC Governance Document, specify:
- (a) the net amount of the NIC_t term (whether negative or positive);
 - (b) how the amount of that term has been calculated, taking account of any Funding Return; and

- (c) the manner in which and the timescale over which the System Operator is required to transfer that amount to the licensee or vice versa.

Part D: The NIC Governance Document

- 10.17 The Authority will issue, and may from time to time revise, a document, to be known as the NIC Governance Document, for purposes connected with the regulation, governance, and administration of the Network Innovation Competition.
- 10.18 The NIC Governance Document may, without limitation, make appropriate provision about or impose requirements in respect of:
 - (h) the eligibility criteria to be applied by, and information to be provided to, the Authority in relation to the assessment and approval of Eligible NIC Projects;
 - (i) the criteria against which the funding of such projects will be assessed and approved (where necessary);
 - (j) the process and procedures that will be in place for the assessment, approval, and financing of such projects' funding (where necessary);
 - (k) arrangements to ensure that relevant matters learnt from the implementation of Eligible NIC Projects can be captured and disseminated;
 - (l) the nature of the reporting obligations in respect of such projects (which may include reporting in respect of the funding and the completion of such projects, as well as reporting on compliance with this condition and the provisions of the NIC Governance Document);
 - (m) arrangements relating to the treatment of intellectual property rights including Returned Royalty Income in respect of Eligible NIC Projects; and
 - (n) any other matters relating to the regulation, governance, or administration of the NIC.
- 10.19 The licensee must comply with the applicable provisions of the NIC Governance Document as if it formed part of this condition.

Part E: Procedure for issuing the NIC Governance Document

- 10.20 Before issuing the NIC Governance Document under this condition, the Authority, by Notice given to the licensee and all other transmission licensees, must:
 - (d) state that it proposes to issue the document, and specify the date on which it proposes that the document should take effect;
 - (e) set out the text of the document and the Authority's reasons for proposing to issue it; and

(f) specify the date (which must not be less than a period of 28 days from the date of the Notice) within which representations with respect to the proposal may be made.

10.21 The Authority must consider any representations that are duly made.

10.22 The requirements of paragraphs 10.20 and 10.21 may be satisfied by action taken before, as well as by action taken after, the commencement of this condition.

10.23 In paragraph 10.20, "issuing the NIC Governance Document" includes issuing any revision of the document, and the procedure provided for under that paragraph will apply to any such revision.

Part F: Interpretation

10.24 For the purposes of this condition:

| | |
|------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Disallowed Expenditure | has the meaning given to that term in paragraph 10.11 of this condition. |
| Directly Attributable Costs | has the meaning given to that term in paragraph 10.13 of this condition. |
| Eligible NIC Project | means a project undertaken by the licensee or any other transmission licensee that appears to the Authority to satisfy such requirements of the NIC Governance Document as are necessary to enable the project to be funded under the NIC Funding Mechanism. |
| Funding Return | has the meaning given to that term in paragraph 10.9 of this condition. |
| Funding Return Mechanism | has the meaning given to that term in paragraph 10.8 of this condition. |
| Halted Project Revenues | has the meaning given to that term in paragraph 10.10 of this condition. |
| NIC Funding | has the meaning given to that term in paragraph 10.6 of this condition. |
| NIC Funding Mechanism | refers to the arrangements (pursuant to [ETC10] of its transmission licence) for the recovery by the System Operator through its Transmission Use of System Charges of the amount of total authorised NIC Funding in any Relevant Year and the apportionment of that amount between the System Operator, the licensee, and all other transmission licensees. |

| | |
|-------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Returned Royalty Income | has the meaning given to that term in paragraph 10.12 of this condition. |
| NIC Governance Document | means the document issued by the Authority under Part D of this condition, subject to the requirements of Part E, relating generally to the Network Innovation Competition and including matters relating to the operation of the NIC Funding Mechanism. |
| Project Direction | means a direction issued by the Authority pursuant to the NIC Governance Document setting out the terms to be followed in relation to an Eligible NIC Project as a condition of its funding under the NIC Funding Mechanism. |
| Transmission Use of System Charges | <i>[to be defined elsewhere in the Special Conditions]</i> |

10.25. Expressions defined in paragraph 10.24 above are to be read and given effect subject to any further explanation or elaboration that might be set out in the NIC Governance Document in relation to such expressions.

[ETC11] Special Condition [x]. The Network Innovation Allowance

Introduction

- 11.1 This condition establishes arrangements to be known as the Network Innovation Allowance (NIA) for the purpose of calculating the amount of the NIA term that applies in [ETC20 (Restriction of Transmission Network Revenue)] with respect to the funding of innovative projects carried out by the licensee.
- 11.2 The effect of the application of the NIA term in [ETC20] is to adjust the calculation of the licensee's innovation incentive revenue (II) (whether upwards or downwards) in order to reflect the performance of the licensee in relation to investment in innovation under the NIA Scheme established pursuant to this condition in accordance with the Final Proposals for the RIIO: T1 Price Control.
- 11.3 This condition also makes appropriate provision for arrangements relating to the regulation, administration, and governance of the NIA Scheme.

Part A: Calculation of the NIA term

- 11.4 For the purposes of ETC20, the NIA adjustment for the Relevant Year t is derived in accordance with the following formula (in this condition, the Principal Formula):

$$NIA_t = ANIA_t - NIAR_t$$

- 11.5 For the purposes of the Principal Formula:

NIA_t means the total allowed adjustment in Relevant Year t .

$ANIA_t$ means the total Allowable NIA Expenditure in Relevant Year t calculated in accordance with the appropriate formula set out in either Part B or Part C below depending on whether Appendix 1 or Appendix 3 is relevant.

$NIAR_t$ means an amount recovered by the licensee in relation to the Relevant Year t or a previous Relevant Year under the NIA Scheme which the Authority has determined, in accordance with provisions set out in the NIA Governance Document, to be unrecoverable (see Part D below).

- 11.6 Expenditure incurred by the licensee may only be recovered under the NIA Scheme if it is Allowable NIA Expenditure.

Part B: Calculation of Allowable NIA Expenditure (ANIA) – [NGET and SPTL only]

- 11.7 This calculation under Method 1 relies upon Base Transmission Network Activity Revenue (BR) in the case of those licensees listed in Appendix 1 (which has effect as part of this condition).

- 11.8 For the purposes of the Principal Formula as it applies to those licensees, the amount of ANIA is derived from the following formula:

$$ANIA_t = PTRA \times \min((ENIA_t + BPC_t), (NIAV \times BR_t))$$

- 11.9 In the formula for the ANIA term above:

PTRA is the pass-through factor and has the value of [0.9].

ENIA_t means the Eligible NIA Expenditure for Relevant Year t as reported in the licensee's Network Innovation Annual Report for that year.

BPC_t means the Eligible NIC Bid Preparation Costs for the Relevant Year t as reported in the licensee's Network Innovation Allowance Annual Report for that year (provided that, where the licensee is part of an Electricity Transmission Group, the amount of such costs recoverable by all of the licensees in that group cannot be more than [£175,000 in total or 5%] of the amount applied for under the Network Innovation Competition whichever is less in the Relevant Year t]).

NIAV means the licensee's NIA Percentage, and has the value that is attributed to the licensee in Appendix 2 (which has effect as part of this condition).

BR_t means Base Transmission Network Activity Revenue in Relevant Year t, as derived in accordance with Part C of [ETC20].

- [11.10 For the purposes of the NIA, the Eligible NIA Internal Expenditure (NIAIE_t) that qualifies as Eligible NIA Expenditure in the Relevant Year t must not exceed the amount determined by the following formula:

$$NIAIE_t \leq Z * ENIA_t$$

Where

NIAIE_t is the Eligible NIA Expenditure that qualifies as Eligible NIA Expenditure for the Relevant Year t.

Z Z has the value of [0.15], except insofar as the Authority consents otherwise.]

Part C: Calculation of Allowable NIA Expenditure (ANIA) – Method 2 [SHETL only]

- 11.11 This calculation under Method 2 relies upon Average Annual Forecast Revenue (AFR) over the whole of the Price Control Period beginning on 1 April 2013 in the case of those licensees listed in Appendix 3 (which has effect as part of this condition).

11.12 For the purposes of the Principal Formula as it applies to those licensees, the amount of ANIA is derived (subject to paragraph 11.13) from the following formula:

$$ANIA_t = PTRA \times \min((ENIA_t + BPC_t), (NIAV \times AFR))$$

11.13 In the formula for the ANIA term above:

PTRA is the pass-through factor and has the value of 0.9.

ENIA_t means the Eligible NIA Expenditure for Relevant Year t as reported in the licensee's Network Innovation Annual Report for that year.

BPC_t means the Eligible NIC Bid Preparation Costs for the Relevant Year t as reported in the licensee's Network Innovation Allowance Annual Report for that year (provided that, where the licensee is part of an Electricity Transmission Group, the amount of such costs recoverable by all of the licensees in that group cannot be more than [£175,000 in total or 5%] of the amount the Electricity Transmission Group has applied for from the Network Innovation Competition whichever is smaller in the Relevant Year t).

NIAV means the licensee's NIA Percentage, and has the value attributed to the licensee in Appendix 2 (which has effect as part of this condition).

AFR means Average Annual Forecast Revenue and has the value attributed to the licensee in Appendix 3 (which has effect as part of this condition).

11.14 Notwithstanding paragraph 11.11, the licensee must ensure that:

$$\sum_{t1}^8 ANIA \leq (PTRA * (NIAV * \sum_{t1}^8 BR))$$

where:

$\sum_{t1}^8 ANIA$ is the sum of the licensee's Allowable NIA Expenditure for each of the regulatory years one to eight (with Relevant Year one beginning on 1 April 2013).

$\sum_{t1}^8 BR$ is the sum of the amount recovered by the licensee for Base Transmission Network Activity Revenue in each of regulatory years one to eight (with Relevant Year one beginning on 1 April 2013).

[11.15 For the purposes of the NIA, the Eligible NIA Internal Expenditure (NIAIE_t) that qualifies as eligible NIA Expenditure in the Relevant Year t must not exceed the amount determined by the following formula:

$$NIAIE_t \leq Z * ENIA_t$$

Where

NIAIE_t is the Eligible NIA Expenditure that qualifies as Eligible NIA Expenditure for the Relevant Year t.

Z Z has the value of 0.15, except insofar as the Authority consents otherwise.]

Part D: Treatment of unrecoverable expenditure

11.16 In any Relevant Year t, the Authority may set, by direction given to the licensee, an amount for NIAR_t that will reduce the licensee's innovation incentive revenue by the amount that the Authority has determined to be unrecoverable in accordance with the relevant provisions of the NIA Governance Document.

Part E: The NIA Governance Document

11.17 The Authority will issue, and may from time to time revise, a document, to be known as the NIA Governance Document, for purposes connected with the regulation, governance, and administration of the NIA Scheme under this condition.

11.18 The NIA Governance Document may, without limitation, make appropriate provision about or impose requirements in respect of:

- (a) the eligibility criteria that are to be applied by, and the information that is to be provided by the licensee to, the Authority in relation to the assessment and approval of Eligible NIA Projects;
- (b) the criteria against which the funding of such projects will be assessed and approved (where necessary);
- (c) the process and procedures that will be in place for the assessment, approval (where necessary), and financing of the funding of such projects;
- (d) arrangements for ensuring that relevant matters learnt from the implementation of Eligible NIA Projects can be captured and disseminated;
- (e) the nature of the reporting obligations in respect of such projects (which may include reporting in respect of the funding and the completion of such projects, as well as reporting on compliance with this condition and the provisions of the NIA Governance Document);

- (f) arrangements relating to the treatment of intellectual property rights in respect of Eligible NIA Projects;
- (g) arrangements relating to how the licensee reports and treats any revenue generated from royalties as a result of Eligible NIA Projects;
- (h) arrangements relating to the preparation and publication by the licensee of a Network Innovation Annual Report; and
- (i) any other matters relating to the regulation, governance, or administration of the NIA Scheme.

11.19 The licensee must comply with such provisions of the NIA Governance Document as require its compliance as if the document were part of this condition.

Part F: Procedure for issuing the NIA Governance Document

11.20 Before issuing the NIA Governance Document under this condition, the Authority, by Notice given to the licensee and transmission owners, must:

- (a) state that it proposes to issue the document, and specify the date on which it proposes that this should take effect;
- (b) set out the text of the document and the Authority's reasons for proposing to issue it; and
- (c) specify the date (which must not be less than a period of 28 days from the date of the Notice) within which representations or objections with respect to the proposal may be made.

11.21 The Authority must consider any representations or objections that are duly made and not withdrawn.

11.22 The requirements of paragraphs 11.20 and 11.21 may be satisfied by action taken before, as well as by action taken after, the commencement of this condition.

11.23 In paragraph 11.20, "issuing the NIA Governance Document" includes issuing any revision of it, and the procedure provided for under that paragraph will apply to any such revision.

Part G: Interpretation

11.24 For the purposes of this condition:

Allowable NIA Expenditure has the meaning given to that term in either Part B or Part C (as appropriate) of this condition.

| | |
|-------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Electricity Transmission Group | means a group of [Transmission which the licensee and every other Transmission Licensee within the group are affiliates of each other. |
| Eligible NIA Expenditure | means the amount of expenditure spent or accrued by the licensee in respect of Eligible NIA Projects that appear to the Authority to satisfy such requirements of the NIA Governance Document as are necessary to enable the projects to be funded under the provisions of this condition. |
| Eligible NIA Projects | means those projects undertaken by the licensee that appear to the Authority to satisfy such requirements of the NIA Governance Document as are necessary to enable the projects to be funded under the provisions of this condition. |
| Eligible NIC Bid Preparation Costs | means the amount of expenditure spent or accrued by the licensee when preparing submissions for the Network Innovation Competition that appear to the Authority to have been spent in such a way that satisfies the requirements of the NIA Governance Document as are necessary to enable the projects to be funded under the provisions of this condition. |
| Network Innovation Allowance | has the meaning given to that term in Part A of this condition. |
| Network Innovation Annual Report | means the report that is to be produced each year by the licensee, in a format and within a timeframe agreed with the Authority, in respect of the licensee's expenditure on network innovation. |
| NIA Governance Document | means the document issued by the Authority under Part E of this condition, subject to the requirements of Part F, relating generally to the establishment and operation of the NIA Scheme and including matters relating to the calculation of the Network Innovation Allowance. |
| NIA Percentage | means the percentage of allowed revenue licensees may use for NIA projects set out |

in the Authority's T1 Decision Document published 23 April 2012 for SP Transmission Limited and Scottish Hydro Electric Limited under reference 58/12 or for National Grid Electricity Transmission Limited on Y December 2012 under reference 00/12.

NIA Scheme

means the scheme of that name established pursuant to this condition and in accordance with the provisions of the NIA Governance Document for purposes relating to the licensee's performance with respect to investment in network innovation.

11.25 Expressions defined in paragraph 11.24 above are to be read and given effect subject to any further explanation or elaboration that may be set out in the NIA Governance Document or the Regulatory Instructions and Guidance issued by the Authority under [ETC 74] Special Condition [XX] of this licence.

11.26 Appendices 1, 2, and 3 follow immediately below.

APPENDIX 1: Maximum BPC_t Value

(see the BPC_t term under Part B or C of this condition)

| Licensee | £k |
|-----------------|-----|
| [Licensee 1] | £XX |
| [Licensee [x]] | £XX |

APPENDIX 2: NIA Percentage

(see the NIAV term under Part B or C of this condition)

| Licensee | Percentage |
|-----------------|-------------|
| [Licensee 1] | XX per cent |
| [Licensee [x]] | XX per cent |

APPENDIX 3: Annual Average Forecast Revenue

(see the AFR term under Part C of this condition)

| Licensee | £m |
|-----------------|-----------|
| [Licensee 1] | XX |
| [Licensee [x]] | XX |

[ETC15] Special Condition [x]. Transmission Investment for Renewable Generation

For inclusion with Second Informal Licence Consultation.

[ETC52] Special Condition [x]. Adjustment to the Transmission Network Revenue Restriction due to Transmission Asset Owner Incentives

Currently - SpC D11 (NGET) and J12 (SHETL and SPT)

For inclusion with Second Informal Licence Consultation.

[ETC12] Special Condition [x]. Restriction on System Operator Internal Revenue [NGET only]

Introduction

12.1 The purpose of this condition is as follows:

- (a) to establish the charging restrictions that determine the level of allowed revenue that may be recovered by the licensee, associated with its internal costs as System Operator; and
- (b) to set out the obligations of the licensee from the balancing services activity in respect of those revenue restrictions.

Part A: Licensee's obligation

12.2 The licensee shall use its best endeavours to ensure that, in Relevant Year] t, the revenue collected by the licensee from the balancing services activity associated with internal costs (being all balancing services activity revenue in Relevant Year t with the exception of any revenue in Relevant Year t accounted for under [SO external costs condition]) does not exceed the amount derived in accordance with the Maximum SO Internal Revenue (SOI) formula set out in Part B below.

Part B: Calculation of Maximum SO Internal Revenue

12.3 The Maximum SO Internal Revenue is derived in accordance with the following formula (in this condition, the Principal Formula):

$$SOI_t = SOBR_t$$

12.4 In the Principal Formula:

SOI_t means the amount of Maximum SO Internal Revenue in Relevant Year t.

$SOBR_t$ means the amount of Base SO Internal Revenue in Relevant Year t as calculated using the formula set out in Part C of this condition.

Part C: Calculation of Base SO Internal Revenue

12.5 For the purposes of the Principal Formula, the amount of $SOBR_t$ is derived in accordance with the following formula:

$$SOBR_t = (SOPU_t + SOMOD_t + SOTRU_t) \times RPIF_t$$

[If SOBR is the only term in SOI this condition could be simplified to $SOI = (SOPU + SOMOD + SOTRU) \times RPIF$]

12.6 In the formula for the $SOBR_t$ term in paragraph 12.5:

- $SOPU_t$ means the amount in Appendix 1, and represents the opening base SO Internal Costs revenue allowance determined by the Authority.
- $SOMOD_t$ has the value zero in Relevant Year 2013-14, and in each subsequent Relevant Year is the value of the incremental change to the licensee's opening base SO Internal Costs revenue allowance for Relevant Year t (set out in Appendix 1) derived from the Annual Iteration of the ET1 Price Control Financial Model determined in accordance with the process set out in Parts [A and B] of [ETC26] (Annual Iteration Process for the ET1 Price Control Financial Model).
- $RPIF_t$ is the price index adjustment factor, whether of a positive or negative value, and is derived in accordance with paragraph 12.7 of this condition.
- $SOTRU_t$ has the value zero in Relevant Year 2013-14, and in each subsequent Relevant Year means the amount of the revenue adjustment, whether of a positive or negative value, made in Relevant Year t in respect of the difference between the assumed value of the Retail Prices Index in Relevant Year t-2 and the actual value of the Retail Prices Index in Relevant Year t-2, and is derived in accordance with paragraph 12.8 of this condition.

12.7 For the purposes of paragraph 12.6 of this condition, $RPIF_t$ is derived in accordance with the following formula:

$$RPIF_t = RPIA_{t-2} \times (1 + GRPIF_{t-1}) \times (1 + GRPIF_t)$$

where:

$$RPIA_t = RPI_t / RPI_{2009-10}$$

$$GRPIF_t = (0.75 \times GRPIF_c) + (0.25 \times GRPIF_{c+1})$$

$$GRPIF_{t-1} = (0.75 \times GRPIF_{c-1}) + (0.25 \times GRPIF_c)$$

and:

RPI_t means the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months from April to March in Relevant Year t.

GRPIFc means the Retail Prices Index Forecast Growth Rate for calendar year c, where c denotes the calendar year in which Relevant Year t begins and the expressions c-1 and c+1 should be interpreted accordingly. In each such case the Retail Prices Index Forecast Growth Rates for calendar year c-1, c and c+1 are taken from the November edition of the HM Treasury publication "Forecasts for the UK Economy", in Relevant Year t-1.

12.8 For the purposes of paragraph 12.6 of this condition, SOTRU_t is derived in accordance with the following formula:

$$\text{SOTRU}_t = ((\text{RPIA}_{t-2} - \text{RPIF}_{t-2})/\text{RPIA}_{t-2}) \times \text{SOREV}_{t-2} \times \text{PVF}_{t-2} \times \text{PVF}_{t-1}$$

12.9 In the formula for the SOTRU_t term in paragraph 12.8:

PVF_t means the present value adjustment term for Relevant Year t, and shall be calculated as one plus the Vanilla Weighted Average Cost of Capital as derived by the Authority for Relevant Year t and the expressions t-1 and t-2 should be interpreted accordingly.

SOREV_{t-2} means the amount (in 2009-10 prices), for Relevant Year t-2, of the combined value of all SO Special Condition revenue adjustments that are indexed by the Retail Prices Index, and is derived in accordance with the following formula:

$$\text{SOREV}_{t-2} = (\text{SOBR}_{t-2})/\text{RPIF}_{t-2}$$

where:

SOBR_{t-2} means the amount of Base SO Internal Revenue in Relevant Year t-2 calculated using the formula set out in Part C of this condition.

Appendix 1

Opening Base Revenue allowance for SO Internal Costs in 2009-10 prices (see paragraph 12.6 of this condition)

| Relevant year | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|--------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| Value of SOPU (£m) | x.x | x.x | x.x | x.x | x.x | x.x | x.x | x.x |

[ETC127] Special Condition [x]. Restriction on System Operator External Costs

To be developed as part of SO 2013

[ETC13 and ETC29] Special Condition [x]. Disapplication

Reviewing Disapplication provisions. Condition(s) for inclusion with Second Informal Licence Consultation. For NGET, we are considering merging the current provisions set out below into one single condition covering both TO and SO.

- Duration of the System Operation Activity Charge Restriction Conditions (SC AA5E of NGET's licence)
- Duration of Charge Restriction Conditions (SC D8 of NGET's licence and SC J9 for SPTL and SHETL).

[ETC 31] Special Condition [x]. Services treated as Excluded Services

Introduction

- 31.1 The purpose of this condition is to set out the basis on which services provided by the licensee may be treated as Excluded Services under the Special Conditions.
- 31.2 Excluded Services are services that conform with the General Principle set out at Part B below and that include, without limitation, those services listed at paragraph [31.12].
- 31.3 Excluded Services are services provided by the licensee for which revenue is derived but are excluded from the [Maximum Revenue/Allowed Transmission Owner Revenue] formula.

Part A: Structure of this condition

- 31.4 Part B of this condition sets out the General Principle that applies for the purpose of determining which of the services provided by the licensee are to be treated as Excluded Services.
- 31.5 Part C sets out, without limitation, certain categories of services provided by the licensee that are to be treated as Excluded Services.
- 31.6 Part D provides for the Authority to give directions in respect of services provided by the licensee that are to be treated as Excluded Services. It also provides for the Authority to direct that any service should not be treated as an Excluded Service.

Part B: Statement of General Principle

- 31.7 The General Principle is that a service provided by the licensee as part of its Transmission Business [define term] is to be treated as an Excluded Service if and to the extent that the service is not already remunerated under any of the charges listed in paragraph 31.8.
- 31.8 The charges referred to in paragraph 31.7 are those charges that are levied by the licensee in respect of:

[Referencing needs to be updated for RIIO referencing once have final numbers and names]

- (a) Transmission network services, under the provisions of Special Condition [[ETC20] (Restriction on Transmission Network Revenue)];

- (b) Internal balancing services activity, under the provisions of Special Condition [ETC12] (Restriction on System Operator Internal Costs); [NGET only]
- (c) External balancing services activity, under the provisions of Special Condition [ETC127] (Restriction on System Operator External Costs); and [NGET only]
- (d) an activity carried out under any provision of [ETC 10 (Network Innovation Competition)] which results in Royalty Income as defined in [ETC10].

Part C: Categories of Excluded Services

31.9 The descriptions of categories of Excluded Services set out at paragraph 31.10 are to be read and given effect subject to any further explanation or elaboration of any of those descriptions that might be set out in the RIGs issued by the Authority under (respectively) [ETC74] standard condition B15 (Regulatory Instructions and Guidance) of this licence.

31.10 Subject to Part D of this condition, Excluded Services shall include, but are not limited to, the following services:

ES1. **Connection services:** This category consists of the carrying out of works (including any necessary reinforcement works or diversionary works) to install, operate, repair, or maintain electric lines, electrical plant, or meters necessary to provide any new connection or modify any existing connection to the licensee's transmission system, (but only to the extent that the service is not already remunerated under one of the charges set out at paragraph 31.8).

ES2 **Diversionary works under an obligation:** This category consists of the relocating of any electric line or electrical plant (including the carrying out of any associated works) pursuant to any statutory obligation other than one imposed on the licensee under section 9(2) (General duties of licence holders) of the Act.

ES3. **Works required by any alteration of premises:** This category consists of the moving of any electric line or electrical plant that forms part of the licensee's transmission system to accommodate the extension, redesign, or redevelopment of any premises on which the asset in question is located or to which it is connected.

ES4 **Telecommunications and information technology infrastructure services:** This category consists of allowing the use of any electric line or electrical plant that forms part of the licensee's transmission system to carry, either directly or indirectly (including by the incorporation of third party equipment), electronic information and data.

ES5 [SPTL and SHETL only] **Outage Changes:** The net costs reasonably incurred by the licensee as a result of any outage change. For the

purpose of this Schedule an “outage change” is a change to the outage plan notified to the licensee by the system operator on or after week 49, as updated from time to time in accordance with the STC.

ES[5/6]**Miscellaneous:** This category consists of the provision of any other service (including the provision of electric lines or electrical plant) that:

- (a) is for the specific benefit of any third party who requests it; and
- (b) is not made available by the licensee as a normal part of the activities of its Transmission Business.

Part D: Authority’s power to give directions

31.11 Where the Authority (having regard to the General Principle) is satisfied:

- (a) that any service treated by the licensee as an Excluded Service should not be so treated; or
- (b) that any service not treated by the licensee as an Excluded Service should be so treated

it may issue to the licensee a direction to that effect.

31.12 Where a direction is given under paragraph [31.11], the licensee must, in accordance with the Direction, either:

- (a) stop treating the service or services specified in the direction as Excluded Services; or
- (b) begin treating the service or services specified in the direction as Excluded Services,

from the date of the direction or such later date as may be specified in it.

Part E: Interpretation

31.13 For the purposes of this condition:

Excluded Services has the meaning provided in paragraph 31.2

[ETC45] Special condition [x]. Electricity transmission losses reporting

[Condition in current licence as AA5C (NGET /D2 Scots)]

Introduction

1. The purpose of this condition is to set out the reporting requirements the licensee shall undertake to inform stakeholders about the steps the licensee is taking to contribute to a lower level of transmission losses on the licensee's transmission system.

Interpretation

"Transmission losses" means the units of electricity unaccounted for on the licensee's transmission system. Unless specified the licensee can estimate "transmission losses" using the licensee's own calculations.

Reporting requirements in relation to transmission losses

2. On or before [1 December 2013], the licensee shall publish a strategy for the price control period setting out for stakeholders how the licensee intends to contribute to a lower level of transmission losses on the licensee's transmission system that fulfils the licensee's duty under Section 9(2) of the Electricity Act 1989 to develop and maintain an efficient, co-ordinated and economic system of electricity transmission. The licensee's strategy should include but is not limited to the following:
 - a. a description of the methodology used by the licensee to take transmission losses into account when designing new load related developments of the licensee's transmission system;
 - b. a description of the licensee's methodology to take transmission losses into account when the licensee is evaluating non-load related replacement programmes on the licensee's transmission system;
 - c. a description of the licensee's asset procurement processes including how the licensee determines the optimal specifications in terms of transmission losses performance of new equipment when they request tenders from manufacturers;
 - d. a summary of the licensee's proposed key network developments and estimates of the impacts on transmission losses on the licensee's transmission system;
 - e. a summary of the licensee's asset replacement programmes and estimates of the impacts on transmission losses on the licensee's transmission system; and

- f. a description of the potential application of new and alternative technologies during the price control period in relation to transmission losses.
- 3. On or before 31 October 2014 and for each subsequent year, [unless the Authority otherwise directs], the licensee shall publish a transmission losses report for the previous financial year for stakeholders, being a report which shall include in reasonable, detail:
 - a. the level of transmission losses from the licensee's transmission system, measured as the difference between the units of electricity metered on entry to the licensee's transmission system and the units of electricity metered on leaving that system;
 - b. a progress report on the implementation of the licensee's strategy under paragraph 2 including the licensee's estimate of the contribution to a lower level of transmission losses on the licensee's transmission system that has occurred as a result; and
 - c. any changes or revisions the licensee has made to the strategy in accordance with paragraph 2.
- 4. The strategy under paragraph 2 and the report under paragraph 3 should contain or be accompanied by a description of any calculations the licensee has used to estimate transmission losses on the licensee's transmission system.

[ETC53] Special Condition [x]. Network Access Policy

Introduction

1. This condition requires the licensee to have in place and implement a Network Access Policy (“the NAP”) that is designed to facilitate efficient performance and effective liaison between the System Operator and Transmission Owners in relation to the planning, management, and operation of the National Electricity Transmission System (NETS) for the benefit of consumers.
2. For the avoidance of doubt, nothing in this condition replaces, overrides, or limits:
 - (a) any statutory duty imposed on the licensee; and
 - (b) any other obligation of the licensee under this licence, particularly in relation to the licensee’s compliance with standard condition B12 (System Operator – Transmission Owner Code), standard condition D2 (Obligation to provide transmission services), and standard condition D3 (Transmission system security standard and quality of service).

Part A: Licensee’s obligations in relation to the NAP

3. The licensee must at all times have in place a NAP that:
 - (a) has been approved by the Authority following consultation with transmission licensees and such other interested parties as the Authority considers appropriate; and
 - (b) conforms to the requirements set out in Part B below.
4. The licensee must maintain the NAP approved under paragraph 3(a) in accordance with the requirements set out in Part C below.
5. Approval by the Authority under paragraph 3(a) may be subject to such conditions requiring further action to be undertaken by the licensee in relation to the NAP as the Authority considers appropriate.
6. The licensee must incorporate the NAP into its planning and operations. It must act consistently with the NAP as approved by the Authority, subject always to the need to ensure the safe and secure operation of the NETS as a whole or any part of it.

Part B: Essential requirements of the NAP

[This is currently an indicative list and may change subject to ongoing industry discussions]

7. The NAP that is in place under this condition must include or make provision for the following matters:

- (a) details of the actions that the licensee will take to co-ordinate with the System Operator and other Transmission Owners to ensure that network outage arrangements associated with the co-ordinated development and reinforcement of the national electricity transmission system, and the replacement, refurbishment, and maintenance of transmission network assets, have regard to the desirability of minimising system costs;
- (b) details of the actions that the licensee will take for the purposes of responding to and managing unplanned network outages with a view to minimising network unavailability subject to the need to ensure the safe and secure operation of the NETS as a whole or any part of it;
- (c) details of the kind of exceptional circumstances in which the application of the provisions of either or both of paragraphs (a) and (b) might need to be suspended or otherwise materially altered;
- (d) a description of such changes to the application of the provisions of either or both of paragraphs (a) and (b) (including any additional options) as might be implemented with the agreement of the System Operator; and
- (e) a description of the licensee's communication and co-ordination strategy for interacting with the System Operator in respect of matters relating to network access (including description in practical terms of how the licensee gives effect to the relevant provisions of the STC and details of any proposals for enhancing communication and co-ordination over and above the STC requirements)].

Part C: Procedure for updating and amending the NAP

- 8. The licensee must from time to time and at least once in every two years while this licence is in force review and make such revisions as may be necessary to the NAP in order to ensure that the information in it continues to be accurate and consistent with the objectives of this condition.
- 9. Where the licensee proposes to revise or otherwise amend the NAP, it must provide a full statement to the Authority of the proposed revision and at the same time provide a copy of that statement to the System Operator.
- 10. The statement to which paragraph 9 refers must include an explanation of the reasons for the proposed revision or amendment, together with such supporting evidence as the licensee considers will assist the Authority in its consideration of the proposal.
- 11. The Authority's consideration of the proposed revision or amendment will include consideration of any submission made by the System Operator.
- 12. The licensee must supply such further information within such period of time as the Authority may reasonably request for the purpose of enabling it to consider the licensee's proposed revisions to the NAP.

13. The Authority (following consultation with the licensee and such other interested parties as it considers appropriate) may either:
 - (a) approve the proposed revision, subject, where necessary, to such terms and conditions relating to any further action to be undertaken by the licensee in relation to the NAP as the Authority considers appropriate; or
 - (b) reject the licensee's proposal.
14. Where approved by the Authority, the revised NAP both supersedes and revokes (with effect from such date as may be specified in it) any previous version of the NAP in place under this condition.

Part D: Availability of the NAP

15. The licensee must ensure that a copy of the NAP in place under this condition:
 - (a) is published on, and is readily accessible from its website; and
 - (b) is otherwise available to any person who requests it upon payment of an amount (if any) that does not exceed the reasonable costs of making and supplying that copy.

Part E: Interpretation

16. For the purposes of this condition:

Network Access Policy has the meaning given to that term in paragraph 1.

SPECIAL CONDITIONS: PRICE CONTROL FINANCIAL MODEL (PCFM) VARIABLES

[ETC 9] Special Condition [x]. The Innovation Roll-out Mechanism

Introduction

9.1 The purpose of this condition is to determine any appropriate revisions to PCFM Variable Values relating to Innovation Roll-out allowed expenditure ('IRM' values) and the regulatory years to which those revisions relate, for use in the Annual Iteration Process for the ET1 Price Control Financial Model, as described in Special Condition [ETC 26] (Annual Iteration Process for the ET1 Price Control Financial Model).

9.2 For the purposes of this condition:

'Relevant Year t' means the Relevant Year in which the value for the term TOMOD, calculated through the Annual Iteration Process, is used in the formula set out in Part [X] of [ETC 20] Special Condition [•] and references to Relevant Year t-1 are to be construed accordingly.

PCFM Variable Value means a value contained in the PCFM Variable Values Table for the licensee contained in the ET1 Price Control Financial Model:

- a. which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition ; and
- b. whose revision does not constitute a modification of the ET1 Price Control Financial Model for the purposes of [ETC57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

9.3 The IRM value relating to a particular regulator year represents the total amount of the licensee's allowed expenditure (in 2009/10 prices) for Innovation Roll-out for that Relevant Year.

9.4 The application of the mechanisms in this condition provides for:

- a) the licensee to propose adjustments to its Innovation Roll-out allowed expenditure during any of the three windows specified in Part D;
- b) determinations by the Authority in relation to proposals by the licensee under sub-paragraph a) and the direction, where applicable of revised Innovation Roll-out allowed expenditure amounts; and
- c) the determination and direction of revised IRM values to reflect any revisions to Innovation Roll-out allowed expenditure.

9.5 The determination and direction of revised IRM values where applicable will, as a consequence of the Annual Iteration Process for the ET1 Price Control Financial Model, mean that the value of the term TOMOD as calculated for Relevant Year t for the purposes of Part C of Special Condition [ETC 20] (Restriction of Transportation Activity Charges) will

result in an adjustment of the licensee's Base Transmission Network Activity Revenue in a manner that:

- a) the approval of changes to allowed expenditure in respect of relevant Innovation Rollout for particular regulatory years
- b) takes account of approved changes for the purposes of the Totex Incentive Mechanism adjustment as set out in [ETC 47] Special Condition [x]. Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – Transmission Owner.

Part A: Features that qualify a roll-out for additional funding

9.6 The roll-out by the licensee of a Proven Innovation may allow the licensee to receive additional funding within the Price Control Period only if the Authority is satisfied that this:

- (a) will contribute to the development in Great Britain of a low-carbon energy sector or any wider environmental benefits;
- (b) will provide long-term value for money for electricity consumers;
- (c) will not enable the licensee to receive commercial benefits from the roll-out (for instance; where a project pays for itself for example, through costs savings then this would not be eligible) within the remainder of the Price Control Period; and
- (d) will not be used to fund any of the Ordinary Business Arrangements of the licensee.

Part B: Licensee's ability to propose a relevant adjustment

9.7 The licensee may by notice to the Authority, and in accordance with Parts C and D below, propose a relevant adjustment within the meaning of paragraph 9.9 to recover Innovation Roll-out Costs where these would constitute a material amount within the meaning of paragraph 9.8.

9.8 A material amount is the amount of the Innovation Roll-out Costs, when multiplied by the licensee's Efficiency Incentive Rate as set out in Appendix 1, that exceeds or is likely to exceed 1 per cent of the licensee's Average Annual Forecast Revenue over the Price Control Period, as set out in Appendix 2.

9.9 A relevant adjustment is an adjustment:

- (a) which the licensee believes will enable it to recover Innovation Roll-out Costs associated with a single Proven Innovation that would not otherwise be recoverable under the Special Conditions; and
- (b) which applies only in respect of Innovation Roll-out Costs that have not yet been incurred.

Part C: Application windows for relevant adjustment proposals

- 9.10 There are two application windows during which a relevant adjustment may be proposed by Notice served under Part B above:
- (a) the first application window opens on 1 May 2015 and closes on 31 May 2015; and
 - (b) the second application window opens on 1 May 2018 and closes on 31 May 2018.
- 9.11 A relevant adjustment may be proposed during any of those windows provided that in each case the proposal complies with the provisions of paragraphs 9.8 and 9.9.

Part D: Other provisions relating to the licensee's proposal

- 9.12 A Notice served by the licensee under Part B above must in all cases:
- (a) state any statutory obligations or any requirements of this licence to which the Notice relates;
 - (b) describe the Proven Innovation that the licensee proposes to roll out;
 - (c) propose the amount of the relevant adjustment and set out by reference to the Innovation Roll-out Costs the basis on which the licensee has calculated the relevant adjustment;
 - (d) demonstrate that the costs to be recovered by the relevant adjustment will be a material amount for the purposes of paragraph 9.8;
 - (e) demonstrate how each of the criteria set out in Part B above will be fulfilled by the additional funding sought;
 - (f) propose relevant outputs or other end products against which the roll-out will be assessed; and
 - (g) state the date from which it is proposed that the relevant adjustment will have effect ("the adjustment date").
- 9.13 The adjustment date must not be a date that is earlier than:
- (a) 1 April 2016 in the case of a relevant adjustment proposed during the first application window; and
 - (b) 1 April 2019 in the case of a relevant adjustment proposed during the second and final application window.

Part E: Authority's determination of revised Innovation Roll-out allowed expenditure amounts

- 9.14 Where the licensee serves a Notice under Part B, the Authority may, within four months of the close of the application window, during which the Notice was submitted to the Authority, determine the relevant adjustment in such

manner as it considers appropriate, having regard to the purposes of this condition.

- 9.15 In determining any relevant adjustment under this Part E, the Authority must:
- (a) consult the licensee;
 - (b) have particular regard to the purposes of this condition; and
 - (c) take no account of the financial performance of the licensee relative to any of the assumptions, whether expressed or implied, by reference to which the Price Control Conditions may have been framed.
- 9.16 The IRM value for each Relevant Year t will be £0m unless directed otherwise by the Authority.

Part F: Determination by the Authority of a Relevant Adjustment

9.17 This part sets out the basis for determining revisions to IRM values for use in the Annual Iteration Process for the ET1 Price Control Financial Model.

9.18 Table 1 below sets out the amounts of allowed expenditure for each approved notice after any modifications directed under Part E of this condition and the total of those amounts for each Relevant Year of the price control period.

Table 1: Allowed expenditure after modifications under Part F for Innovation Rollout Mechanism Expenditure

| Allowed expenditure (£m 2009/10 prices) | Regulatory Year | | | | | | | |
|---------------------------------------------------------|-----------------|---------|---------|---------|---------|---------|---------|---------|
| | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
| IRM Notice | | | | | | | | |
| Notice submitted in year x for rollout of innovation y. | | | | | | | | |
| Etc | | | | | | | | |
| Total | | | | | | | | |

9.19 The Authority shall, by 30 November in each Relevant Year t-1 check whether the IRM value for any Relevant Year is different from the allowed expenditure total for the corresponding Relevant Year set out in Table 1 and, in any case where it is different, the Authority shall:

- a) determine that the IRM value for the Relevant Year concerned is to be revised so as to match the allowed expenditure total in Table 1; and
- b) issue a direction, in accordance with the provisions of Part F of this condition specifying any revised IRM values determined under subparagraph (a) and the regulatory years to which they relate.

Part G: Procedure for direction of revised IRM values by the Authority

- 9.20 Any revised IRM values determined by the Authority in accordance with Part F of this condition will be directed by the Authority by 30 November in each Relevant Year t-1.
- 9.21 Before issuing any directions under paragraph 9.20, the Authority will give Notice to the licensee of all of the values that it proposes to direct.
- 9.22 The Notice referred to in paragraph 9.21 must:
- a) state that any revised IRM values have been determined in accordance with Part H 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 or objections concerning the determination of any revised IRM values.
- 9.23 The Authority shall have due regard to any representations or objections duly received under paragraph 9.23, and give reasons for its decisions in relation to them.
- 9.24 Where the Authority directs any revised IRM values relating to regulatory years which are earlier than Relevant Year t, the effect of using those revised IRM values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a carrying value adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt, it shall not have any retrospective effect on a previously directed value of the term MOD.
- 9.25 If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised IRM values by 30 November, then no revised IRM values will be used in the Annual Iteration Process that is required by [ETC 26] Special Condition [x] to be undertaken by the Authority by 30 November in that same Relevant Year t-1. In those circumstances, the Authority shall take full account of the position when determining and directing any revised IRM values in respect of the next Annual Iteration Process.

Part H: Interpretation

- 9.26 For the purposes of this condition, the following definitions apply:

| | |
|--------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Innovation | <p>in relation to its use in a defined term of this condition, means any or all of the following:</p> <ul style="list-style-type: none"> (a) a specific piece of new Network Equipment; (b) a novel arrangement or application of new or existing Network Equipment; and (c) a novel operational practice or a novel commercial arrangement, <p>that is not, or is not within the scope of, an Ordinary Business Arrangement.</p> |
| Innovation Roll-out Costs | <p>means the cost of rolling out a Proven Innovation.</p> |
| Network Equipment | <p>means any asset that for the time being forms part of the national electricity transmission system and any control centre for use in conjunction therewith.</p> |
| Ordinary Business Arrangement | <p>means any or all of the following:</p> <ul style="list-style-type: none"> (a) a specific piece of existing Network Equipment; (b) an arrangement or application of existing Network Equipment; and (c) an operational practice or a commercial arrangement, <p>that is being used or is capable of being used, without modification, by the licensee or another electricity Transmission Licensee or Distribution Licensee at the start of the Price Control Period.</p> |
| Price Control Period | <p>means the period of eight regulatory years beginning on 1 April 2013 and ending on 31 March 2021 during which, subject to [ETC29] Special Condition [XX] (Disapplication), the Special Conditions will have effect in this licence.</p> |
| Special Conditions | <p>means the conditions set out in the Authority's T1 Decision Document published 23 April 2012 for SP Transmission Limited and Scottish Hydro Electric Limited under reference 58/12 or on Y</p> |

December 2012 under reference 00/12 for National Grid Electricity Transmission.

Proven Innovation means an Innovation which the Transmission Operator can demonstrate has been successfully trialled or demonstrated either on their network or elsewhere.

Relevant Adjustment means an adjustment to the licensee’s allowed revenue to allow them to roll out a Proven Innovation.

9.27 Expressions defined in paragraph 9.26 above are to be read and given effect subject to any further explanation or elaboration set out in the Regulatory Instructions and Guidance issued by the Authority under [ETC74] Special Condition [XX].

APPENDIX 1: Efficiency Incentive Rate

| Licensee | % |
|-----------------|----------|
| [Licensee 1] | XX |
| [Licensee [x]] | XX |

APPENDIX 2: Annual Average Forecast Revenue

(see the AFR term under Part C of this condition)

| Licensee | £m |
|-----------------|-----------|
| [Licensee 1] | XX |
| [Licensee [x]] | XX |

[ETC62] Special Condition [x]. Pre-construction Engineering deliverable for Strategic Wider Works Outputs

[To note generic introduction paragraphs relating to the interaction with the financial model to be reviewed in order to ensure consistency with other conditions that result in a change to MOD]

Introduction

1. The purposes of this condition are:
 - (a) to specify the Pre-construction Engineering (PE) Outputs the Licensee shall deliver during the price control period and the allowed expenditure associated with those Outputs; and
 - (b) to determine any appropriate revisions to the PCFM Variable Values relating to PE Allowed Expenditure ('PEAE' values) and the Regulatory Years to which those revised PEAE values relate for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in [ETC26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model).

2. For the purposes of this condition:

'Pre-construction engineering' means the initial activities undertaken by the licensee to develop the technical design plans and obtain the necessary development consents in preparation for constructing a Strategic Wider Works Output on the National Electricity Transmission System.

'Pre-construction engineering outputs' means the deliverables from the pre-construction engineering activities necessary to prepare a feasible and economically efficient technical design for the relevant Strategic Wider Works Output. These are likely to include:

- (a) Routing, siting and optioneering studies
- (b) Environmental assessments
- (c) Project design studies and selection
- (d) Technical specifications for cost tenders
- (e) Planning consents

Part A: Specifying Pre-construction Engineering Outputs

3. Table 1 gives the details of the PE Outputs the Licensee shall deliver for each relevant Strategic Wider Works Output during the Price Control Period

[subject to the provisions of part B] and the allowed expenditure associated with these Outputs.

Table 1: Pre-construction Outputs

| Prospective wider works | Pre-construction engineering outputs | Allowed expenditure | Expected completion date |
|--------------------------------|---------------------------------------------|----------------------------|---------------------------------|
| | Technical design plans & consents | | |
| | | | |
| | | | |

4. The Licensee shall report annually to the Authority on progress in delivering the PE Outputs and its actual expenditure incurred under the Regulatory Reporting Instructions and Guidance.

Part B: Substitution of PE Outputs

5. This part (which should be read in conjunction with Part C) provides for an Output Substitution (OS) to have effect in relation to Pre-construction Engineering Outputs specified in Part A of this condition.
6. For the purposes of this condition, an OS arises where the Authority is satisfied that:
 - (a) there has been a significant change in outlook for the mix, location and timing of future generation connections and/or demand requirements compared to the scenarios used to set and specify a PE Output in Part A; and
 - (b) as a result there has been a significant change in the future wider reinforcements on the NETS that are likely to be required with the consequence that a PE Output specified in Part A is no longer relevant and that an alternative PE Output is required instead.

Part C: Assessment of a PE Output Substitution

7. This Part C sets out a procedure that is to be applied for the purposes of enabling the Authority:
 - c. to assess whether a PE Output specified in Part A of this condition requires an OS (within the meaning of Part B); and, if so,
 - d. to approve the OS.

Licensee’s notice to the Authority

8. Where the Licensee considers that there has been a significant change in outlook for the mix, location and timing of future generation connections and/or demand requirements compared to the scenarios used to specify a PE Output in Part A and that as a result a PE Output specified in Part A is no longer relevant and that an alternative PE Output is required instead, the licensee shall give notice and provide supporting evidence 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 PE Output was scheduled for delivery (or by such later date as the Authority may notify to the licensee).
9. A notice under paragraph 8 must include:
 - a. the reasons for the request, along with relevant supporting evidence to justify the Output Substitution; and
 - b. a description of the alternative PE Output and the Strategic Wider Works Output on the National Electricity Transmission System for which the PE Output relates to.
10. The notice must also contain or be accompanied by:
 - a. a statement about whether the Output Substitution proposed by the Licensee has any implications for other Outputs specified in Part A; and
 - b. any other analysis or information that the Licensee considers relevant to the Authority's assessment of the event.

Determination by the Authority

11. Where the Authority receives notice from the Licensee under paragraph 8, it will determine:
 - a. whether an Output Substitution to a PE Output specified in Part A of this condition is justified; and
 - b. the adjustment that is to be given effect through a modification under Part D of this condition in relation to the specified output.

Revocation

12. The Authority may, with the consent of the Licensee, revoke a determination made under paragraph 11.

Part D: Modification to amend the details of PE Outputs

13. Table 1 in Part A of this condition may be modified by the Authority by direction in order to amend the details of PE Output specified in that Part A.
14. The reason for modifying details of outputs referred to in paragraph 13 shall arise from an Output Substitution defined in Part B and determined by the Authority in accordance with Part C.

15. A direction issued by the Authority under paragraph 13 is of no effect unless the Authority has first:
 - (a) Given Notice to interested parties that it proposes to issue a direction under paragraph 13:
 - (i) Specifying the date on which it proposes that the direction should take effect;
 - (ii) specifying, where appropriate, any Output Substitutions that have been determined in accordance with Part C 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.

Part E: Ex post adjustments where PE Outputs not delivered

16. The Licensee's delivery of the PE Outputs specified in Part A will be subject to monitoring by the Authority further to receipt of information from the Licensee referred to in paragraph 4 of this condition.
17. Where the Licensee has not delivered or has only partially delivered a PE Output set out in Part A at the end of the price control period, the Authority shall adjust allowed expenditure in relation to the PE Output to ensure only efficient costs are recovered.

[ETC39] Special Condition [x]. Specification of Baseline and Strategic Wider Works Outputs and Assessment of Allowed Expenditure

[We note that this draft licence condition does not fully reflect companies' recent licence drafting working group comments]

Introduction

1. The purposes of this condition are:
 - a. to specify the Baseline and Strategic Wider Works Outputs the Licensee shall deliver during the price control period and the allowed expenditure associated with them; and
 - b. to determine any appropriate revisions to PCFM Variable Values relating to Wider Works allowed expenditure ('WWE' values) and the regulatory 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 [ETC26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model).

2. For the purposes of this condition:

'Wider works' means reinforcements of the onshore high voltage electricity system that result in increases of transmission capacity, or boundary transfer capability on the main interconnected transmission system (MITS), including work to attain compliance with the national electricity transmission system security and quality of supply standards (NETS SQSS).

'Baseline wider works output' means wider works that the licensee is required to deliver in its licence area during RIIO-T1 that has been approved as part of the price control review and funded in its opening base revenues.

'Strategic wider works output' means wider works that the licensee may be required to deliver in its licence if the Authority approves the investment case during the price control period. SWW outputs must meet eligibility criteria set by the licensee and may include a degree of anticipatory investment to meet future requirements.

'Relevant Year t' means the Relevant Year in which the value for the term TOMOD, calculated through the Annual Iteration Process, is used in the formula set out in Part [x] of [ETC 20] Special Condition [x] and references to Relevant Year t-1 are to be construed accordingly.

'PCFM Variable Value' means a value contained in the PCFM Variable Values Table for the licensee contained in the ET1 Price Control Financial Model:

- a. which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and
 - b. whose revision does not constitute a modification of the ET1 Price Control Financial Model for the purposes of Special Condition [x] (Governance of ET1 Price Control Financial Instruments).
3. The WWE value relating to a particular regulatory year, represents the total amount of allowed expenditure (in 2009/10 prices) for Wider Works Outputs for that Relevant Year as determined in accordance with this condition.

Part A: Application of the mechanisms in this condition

4. The application of the mechanisms set out in this condition provides for:
 - a. the specification of Baseline Wider Works Outputs;
 - b. the approval of additional Strategic Wider Works Outputs;
 - c. the amendment of Baseline and Strategic Wider Works Outputs;
 - d. the approval of changes to allowed expenditure in respect of relevant Wider Works Outputs for particular regulatory years;
 - 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 TOMOD as calculated for Relevant Year t for the purposes of Part C of Special Condition [ETC20] (Restriction of Transmission Network Revenue) will result in an adjustment of the Licensee's Base Transmission Network Activity Revenue (whether upwards or downwards) in a manner that:
 - i. reflects approved changes to allowed expenditure for Wider Works Outputs specified in this condition, and
 - ii. takes account of approved changes to allowed expenditure for Wider Works Outputs specified in this condition for the purposes of the Totex Incentive Mechanism Adjustment as set out in Part [x] of [ETC 47] Special Condition [x] (Determination of PCFM Variable Values for Totex Incentive Mechanism adjustments – Transmission Owner) and in accordance with the methodology set out in Chapter [x] of the ET1 Price Control Financial Handbook.
5. This condition should be read and construed in conjunction with, [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Model), and [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

Part B: Specification of baseline and strategic wider works outputs

6. Table 1 gives details of the baseline wider works outputs the Licensee is required to deliver during RIIO-T1 that were specified at the start of the RIIO-T1 price control period.
7. The allowed expenditure figures set out in Table 1 have been reflected in:
 - a. the licensee's opening base revenue allowances, set against the licensee's name in Appendix 1 to [ETC20] Special Condition [x] (Restriction of Transmission Network Revenue); and
 - b. 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.

Table 1: Baseline wider works outputs specified at start of RIIO-T1

| Location | Description of output | Scheduled delivery date | Allowed expenditure (£m 2009/10 prices) |
|------------------|----------------------------------------|-------------------------|-----------------------------------------|
| Sub-boundary xx: | XXXMW additional transmission capacity | QX 201X/1X | XX.X |
| etc | | | |

8. During RIIO-T1 the Licensee can request that the Authority approve expenditure for additional strategic wider works outputs. These are additional to the baseline wider works outputs specified in Table 1 above.
9. The Authority may approve strategic wider works outputs and allowed expenditure amounts pursuant to the provisions of Part G of this condition. All strategic wider works outputs approved by the Authority including those approved after 1 April 2013 under this condition will be specified in Table 2 below.

Table 2: Strategic wider works outputs approved during RIIO-T1

| Date of approval | Location | Description of output | Scheduled delivery date | Allowed expenditure (£m 2009/10 prices) |
|------------------|------------|-------------------------------------|-------------------------|-----------------------------------------|
| MMM YYYY | Boundary X | XXMW additional transfer capability | by QY 201X | XXX.X |
| etc | | | | |

10. The licensee will report annually to the Authority on progress made in delivering the outputs specified in Table 1 and Table 2 along with information on its actual expenditure incurred under the regulatory

instructions and guidance issued in accordance with standard condition [ETC74] Regulatory Instructions and Guidance.

Part C: Cost and Output Adjusting Events

11. For SHETL: This part (which should be read in conjunction with Part D) provides for a Cost and Output Adjusting Event (COAE) to have effect in relation to Strategic Wider Works Outputs specified in Table 2 in Part B of this condition.

For SPTL: This part (which should be read in conjunction with Part D) provides for a Cost and Output Adjusting Event (COAE) to have effect in relation to the Baseline Wider Works Output associated with the Western HVDC Link (referred to below as 'WHVDC baseline output') specified in Table 1, and all Strategic Wider Works Outputs specified in Table 2 in Part B of this condition.

12. For all: For the purposes of this condition, a COAE arises where the Authority is satisfied that:
- a. a pre-defined exceptional event has occurred that the licensee could not have reasonably foreseen and/or efficiently planned a contingency for;
 - b. For SHETL: the pre-defined exceptional event has directly resulted in a change to the scope of construction works and will cause expenditure relative to the allowed expenditure specified in Table 2 for a Strategic Wider Works Output to be incurred or saved and that the difference before the totex efficiency incentive will be no less than:
 - i. 20% for a Strategic Wider Works Output where the total allowed expenditure is less than £500 million over the period 2013/14 to 2020/21; or
 - ii. 10% in the case of the Western Isles link or where the total allowed expenditure for a Strategic Wider Works Output is greater than £500 million over the period 2013/14 to 2020/21;
 - b. For SPTL: the pre-defined exceptional event has directly resulted in a change to the scope of construction works and will cause expenditure relative to the allowed expenditure specified in Part B for the WHVDC baseline output or a Strategic Wider Works Output to be incurred or saved and that the difference before the totex efficiency incentive will be no less than:
 - i. 20% for a Strategic Wider Works Output; or
 - ii. 10% in the case of the WHVDC baseline output; [placeholder]
 - c. For all: 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.
 - d. For SHETL: and/or the pre-defined exceptional event has delayed progress on a Strategic Wider Works Output and as a result the expected completion date is outwith the agreed financial year for the scheduled delivery date.
13. For SHETL: In paragraph 12, "a pre-defined exceptional event" is limited to the following:
- a. Extreme weather events (worse than 1 in 10 for land-based activity, equivalent provisions for marine-based activity);
 - b. The imposition of additional terms or conditions of any statutory consent, approval or permission (including but not limited to planning consent);
 - c. Movement of agreed outages by the SO; or
 - d. Changes in the project scope that could not have been anticipated during the assessment process.

For SPTL: In paragraph 12, "a pre-defined exceptional event" is limited to the following:

- a. Extreme weather events (worse than 1 in 10 for land-based activity, equivalent provisions for marine-based activity);
 - b. The imposition of additional terms or conditions of any statutory consent, approval or permission (including but not limited to planning consent);
 - c. Unforeseen ground or sea-bed conditions.
14. For all: In paragraph 12, "change to the scope of construction works" means a change that is necessary to the scope and/or scale of those works as a direct result of a single pre-defined exceptional event in respect of delivering a Strategic Wider Works Output specified in Table 2 above.

Part D: Assessment of Cost and Output Adjusting Events

15. This Part D 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 the event described in paragraph 15(a).

Licensee's notice to the Authority

16. Where the Licensee considers, and can provide supporting evidence, that a COAE has occurred in relation to a Strategic Wider Works Output specified 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).
17. Where relevant, a notice under paragraph 16 must:
 - a. set out the reasons for the request, along with a description of the pre-defined exceptional event specified in Part C to which the notice relates and why the Licensee considers it to be a COAE;
 - b. describe progress made in relation to its original project plans for the delivery of the strategic wider works output as specified in Part B;
 - c. describe the requested changes in Part B and where appropriate to Table 3 in Part F;
 - d. specify the costs that the Licensee expects to be incurred or saved by that event, and explain how the amount of those costs has been calculated including relevant evidence on the change of scope of the construction works;
 - e. provide revised project development plans, design works, forecast costs, costs breakdowns, annual expenditure profiles, and the construction programme;
 - f. specify whether the Licensee expects the event to have an impact on timeline for the output delivery and explain what actions it has or will take to mitigate the impact of the event on the scheduled delivery date;
 - g. specify any other modifications to the output specified in Part B that the Licensee considers necessary as a consequence of the event, and explain how these amendments have been calculated;
 - h. describe why the Licensee considers that the relevant costs cannot otherwise be recovered under the revenue allowances provided by this condition or any other provision within this licence;
 - i. 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 under this licence.
 - j. any other analysis or information that the Licensee considers may be relevant to the Authority's consideration of its request.
18. The notice must also contain or be accompanied by:
 - a. details of any relevant calculations of the Licensee in which revised expenditure or output delivery has 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 event;
- c. a statement about the impact of the adjustment proposed by the Licensee on the output as specified in Part B; and
- d. any other analysis or information that the Licensee considers relevant to the Authority's assessment of the event.

Determination by the Authority

- 19. Where the Authority receives notice from the Licensee under paragraph 16, it will determine:
 - a. whether a COAE has occurred in relation to an output that is specified in Part B of this condition;
 - b. whether the output will remain efficient as a consequence of the pre-defined exceptional event; and
 - c. subject to paragraph 20, the adjustment that is to be given effect through a modification under Part G of this condition in relation to the specified output.
- 20. Where the Authority determines under paragraph 19 that each of sub-paragraphs (a) and (b) is satisfied, the adjustment that it determines under sub-paragraph (c) 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 totex adjusting event had not occurred.

Revocation

- 21. The Authority may, with the consent of the Licensee, revoke a determination made under paragraph 19.

Part E: Baseline and Strategic Wider Works Output Amendments for Changes in System Background

- 22. This part (which should be read in conjunction with Part F) provides for an Output Amendment (OA) to have effect in relation to Baseline and Strategic Works Outputs specified in Part B of this condition.
- 23. For the purposes of this condition, an OA arises where the Authority is satisfied that:
 - a. there have been changes in the system background relative to the assumptions used initially to model and specify a Baseline or Strategic Wider Works Output in Part B.
 - b. the developments in the system background will directly result in a difference between the capacity increase of the Baseline or Strategic

Wider Works Output in Part B that the licensee has undertaken to deliver and the achievable capacity increase.

- c. amending the Baseline or Strategic Wider Works Output with the revised capacity increase based on the new information about the system background has no implications for the allowed expenditure specified in Part B for that output.
24. In paragraph 23, “changes in the system background” means a unforeseen change in the generation and demand background within the boundary that the Baseline or Strategic Wider Works Output is to be delivered or in adjacent boundaries or zones.

Part F: Assessment of Wider Works Outputs Amendments for Changes in the System Background

25. This Part F sets out a procedure that is to be applied for the purposes of enabling the Authority:
- a. to assess whether a Baseline and Strategic Wider Works Outputs specified in Part B of this condition requires an OA (within the meaning of Part C) as a direct result of changes in the system background; and, if so,
 - b. to determine the OA to the Baseline or Strategic Wider Works Output that is to be made because of the changes in the system background

[Table 3 to be added.]

Licensee’s notice to the Authority

26. Where the Licensee considers, and can provide supporting evidence, that changes in the system background relative to the initial assumptions used to specify a Baseline or Strategic Wider Works Output in Part B has had an impact on the achievable capacity increase of a Baseline or Strategic Wider Works Output it has undertaken to deliver 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 or Strategic Wider Works Output was delivered (or by such later date as the Authority may notify to the licensee).
27. A notice under paragraph 26 must include:
- a. a description of the outputs in Part B;
 - b. a progress report in relation to delivery of the wider works output as specified in Part B;
 - c. the reasons for the request, along with relevant supporting evidence of the changes in the system background defined in Part C to which the notice relates and why the Licensee considers it has directly resulted in a difference between the achievable capacity increase and the required capacity increase of the Baseline or Strategic Wider Works specified in Part B;

- d. specify that an amendment to the Baseline or Strategic Wider Works Output in Part B based on the revised system background would not have implications for the allowed expenditure for delivering that output.

28. The notice must also contain or be accompanied by:

- a. a statement about whether the output amendment proposed by the Licensee has any implications for other outputs specified in Part B; and
- b. any other analysis or information that the Licensee considers relevant to the Authority's assessment of the event.

Determination by the Authority

29. Where the Authority receives notice from the Licensee under paragraph 27, it will determine:

- a. whether an amendment to an output that is specified in Part B of this condition is warranted as a direct result of developments in the system background; and
- b. the adjustment that is to be given effect through a modification under Part G of this condition in relation to the specified output.

Revocation

30. The Authority may, with the consent of the Licensee, revoke a determination made under paragraph 29.

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

31. The Authority may direct modifications to Table 1 and Table 2 in Part B and, where applicable to Table 3 in Part F of this condition in order to:

- a. amend the details of Baseline Wider Works Outputs or Strategic Wider Works Output specified in that Part B; or
- b. to add details, including the amount of allowed expenditure, of new Strategic Wider Works Outputs for inclusion in Part B and Part F through the provisions of this Part G.

32. The reason for modifying details of outputs referred to in paragraph 33(a) may arise from:

- a. a Cost and Output Adjusting Event defined in Part C and determined by the Authority in accordance with Part D; or
- b. an Output Amendment defined in Part E and determined by the Authority in accordance with Part F.

33. A direction issued by the Authority under paragraph 31 is of no effect unless the Authority has first:

- (a) given Notice to interested parties that it proposes to issue a direction under paragraph 31:
 - (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 D, Part F and Part G 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.

Licensee's notice to the Authority

34. The Licensee may ask the Authority to direct modifications under paragraph 32(b) by giving notice of its request to the Authority in such form as the Authority may from time to time require.

35. A notice under paragraph 36 must contain:

- a. a description of the proposed strategic wider works output, including evidence that the proposed output meets the materiality criteria set by the licensee;
- b. the reasons for the request, including the associated needs case and cost-benefit analysis for the strategic wider works output and delivery timescales;
- c. a specification of the potential risks associated with delivery and ongoing operation of the proposed wider works output as well as relevant supporting information on the licensee's risk management strategy and the efficiency of its risk sharing arrangements;
- d. 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.
- e. evidence of efficient costs including information on detailed design works, the licensee's supplier procurement and tender procedures, forecast cost on a year by year basis, and a breakdown of the forecast costs;
- f. a description of the new strategic wider works output in the form set out in Part B; and
- g. any other analysis or information that the Licensee considers may be relevant to the Authority's consideration of its request.

Determination by the Authority

36. Where the Authority receives notice from the Licensee under paragraph 36 in relation to an additional Strategic Wider Works Output, it will 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;
 - c. whether there is a sufficiently advanced technical option(s) 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 G.

Revocation

37. The Authority may, with the consent of the Licensee, revoke a determination made under paragraph 38.

Part H: Determination of revisions to WWE values

38. This part sets out the basis for determining revisions to WWE values for use in the Annual Iteration Process for the ET1 Price Control Financial Model.
39. Table 3 below sets out the amounts of allowed expenditure for each Wider Works Output after any modifications directed under Part G of this condition and the total of those amounts for each Relevant Year of the price control period.

Table 3: Allowed expenditure after modifications under Part G for Baseline and Strategic Wider Works Outputs

| Allowed expenditure (£m 2009/10 prices) | Regulatory Year | | | | | | | |
|----------------------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 201 3/1 4 | 201 4/1 5 | 201 5/1 6 | 201 6/1 7 | 201 7/1 8 | 201 8/1 9 | 201 9/2 0 | 202 0/2 1 |
| Wider Works output | | | | | | | | |
| XXXMW additional transfer capability on boundary Y | | | | | | | | |
| Etc | | | | | | | | |
| Total | | | | | | | | |

40. The Authority shall, by 30 November or as soon as reasonably practicable thereafter in each Relevant Year t-1 check whether the WWE value for any Relevant Year is different from the allowed expenditure total for the corresponding Relevant Year set out in Table 3 and, in any case where it is different, the Authority shall:
- a. determine that the WWE value for the Relevant Year concerned is to be revised so as to match the allowed expenditure total in Table 3; and
 - b. issue a direction, in accordance with the provisions of Part G of this condition specifying any revised WWE values determined under subparagraph (a) and the regulatory years to which they relate.

Part I: Procedure for direction of revised WWE values by the Authority

41. Any revised WWE values determined by the Authority in accordance with Part H 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.
42. A direction issued by the Authority under paragraph 42 is of no effect unless the Authority has first:
- (a) given Notice to interested parties that it proposes to issue a direction under paragraph 42:
 - (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 H 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
 - (c) considered any representations in response to the Notice that are duly made and not withdrawn.
43. Where the Authority directs any revised WWE values relating to regulatory years which are earlier than Relevant Year t, the effect of using those revised WWE values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a carrying value adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt, it shall not have any retrospective effect on a previously directed value of the term MOD.
44. 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, then no revised WWE values will be used in the Annual Iteration Process that is required by [ETC26] Special Condition [x] to be undertaken by the

Authority by 30 November in that same Relevant Year t-1. In those circumstances, the Authority shall take full account of the position when determining and directing any revised WWE values in respect of the next Annual Iteration Process.

[ETC41] Special Condition [x]: Network Development Policy and Wider Works Volume Driver [NGET only]

For inclusion with Second Informal Licence Consultation.

[ETC 55] Special Condition [x] Baseline generation connection outputs and generation connections volume driver [SPTL version]

[This draft does not apply to NGET or SHETL. These are to be provided in the Second Consultation.]

[To note generic introduction paragraphs relating to the interaction with the financial model to be reviewed in order to ensure consistency with other conditions that result in a change to MOD]

Introduction

1. The purposes of this condition are:

- a. to specify the basis on which the licensee's levels of allowed expenditure on sole-use and shared-use enabling works (together 'Generation Connections') are to be determined; and
- b. To determine any appropriate revisions to the PCFM Variable Values relating to the constituents of Generation Connections allowed expenditure ('GCE' values) and the Regulatory Years to which those revised GCE values relate for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in [ETC26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model).

[This condition sets out the basis of calculating adjustments to Totex allowances arising from connections works above those identified in the baseline. In every year of iteration of the financial model (denoted year t-1), it seeks to specify the total variance in allowance for each Relevant Year k up to the latest reported (year t-2). The entire vector of allowances is potentially rewritten (subject to Authority: Para.11), changes being made retrospectively to allowances in the year of performance, not the year of reporting. This is consistent with our understanding of the operation of the PCFM. This interaction is critical to the proper operation of this condition. (note that while this condition will define inputs which affect MOD in year t, only variances up to and including year t-2 will be specified)]

2. For the purposes of this condition:

- 'Enabling works'** means the transmission infrastructure works which are needed to connect a generator to the transmission network.
- 'Sole-use enabling works'** means sole-user triggered transmission infrastructure works associated with the connection of new or additional generation capacity to a part of the licensee's transmission system (or connected to a distribution system which in turn connects to a part of the licensee's transmission system) as specified in relevant agreements between the licensee and the system operator pursuant to the STC, where construction of those works takes part (in whole or in part) after 31 March 2013;

‘Shared-use enabling works’ means shared-user triggered transmission infrastructure works associated with the connection of new or additional generation capacity to a part of the licensee’s transmission system (or connected to a distribution system which in turn connects to a part of the licensee’s transmission system) as specified in relevant agreements between the licensee and the system operator pursuant to the STC, where construction of those works takes place (in whole or in part) after 31 March 2013;

‘Relevant generation capacity’ means the cumulative amount of generation connection capacity connected to a part of the licensee’s transmission system or connected to a distribution system which in turn connects directly to a part of the licensee’s transmission system for which attributable sole-use works are completed and commissioned (in accordance with the STC) after 31 March 2013;

‘Relevant installed asset rating’ means the cumulative amount of installed asset rating capacity to accommodate generation connections to a part of the licensee’s transmission system or connected to a distribution system which in turn connects directly to a part of the licensee’s transmission system for which attributable shared-use works are completed and commissioned (in accordance with the STC) after 31 March 2013;

‘Relevant Year t’ means the Relevant Year in which the value for the term MOD(TO), calculated through the Annual Iteration Process, is used in the formula set out in Part [x] of [ETC 20] Special Condition [x] and references to Relevant Year t-1 are to be construed accordingly.

‘PCFM Variable Value’ means a value contained in the PCFM Variable Values Table for the licensee contained in ET1 Price Control Financial Model:

- a. which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition ; and
- b. whose revision does not constitute a modification of the ET1 Price Control Financial Model for the purposes of Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

3. The ‘GCE values’ relating to a particular Regulatory Year, represents the total amount of allowed expenditure (in 2009/10 prices) for all generation connections the licensee has commissioned and delivered for that Regulatory Year. There are four constituent ‘GCE values’ in each regulatory year, identified and defined in Paragraph 6. The GCE values as at 1 April 2013 are

the approved allowances included in the price control for the price control period.

Part A: Application of the mechanisms in this condition

4. The application of the mechanisms set out in this condition provides for:
 - a. the determination of allowed expenditure amounts for Generation Connections for particular Regulatory Years which reflect actual levels of Generation Connections in the Regulatory Years concerned; and
 - b. the direction of revised GCE values to reflect changes to allowed expenditure so that, as a consequence of the Annual Iteration Process, the value of the term MOD(TO) as calculated for Relevant Year t for the purposes of Part C of [ETC 20] Special Condition [x] (Restriction of Transmission Network Revenue) will result in an adjustment of the Licensee's Base Transmission Network Activity Revenue (whether upwards or downwards) in a manner that:
 - i. reflects allowed expenditure amounts determined under Part B of this condition; and
 - ii. takes account of allowed expenditure for Generation Connections for the purposes of the Totex Incentive Mechanism Adjustment as set out in Part [x] of [ETC 47] Special Condition [x] (Determination of PCFM Variable Values for Totex Incentive Mechanism adjustments – Transmission Owner) and in accordance with the methodology set out in Chapter [x] of the ET1 Price Control Financial Handbook.
5. This condition should be read and construed in conjunction with, [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Model), and [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

Part B: Determination of the value of allowed expenditure for Generation Connections and determination of revisions to GCE values

6. For the purposes of paragraph 1, GCE for Relevant Year k is to be derived in accordance with the following formula (in this condition, "the Principal Formula"):

$$GCE_k = BSUE_k + VSUE_k + BSHE_k + VSHE_k$$

where:

BSUE_k is the allowed baseline expenditure in year k expressed in 2009/10 prices, for sole-use enabling works to accommodate new or additional generation capacity as set out in table 1;

BSHE_k is the allowed baseline expenditure in year k expressed in 2009/10 prices, for shared-use enabling works to accommodate new or additional generation capacity as set out in table 2;

VSUE_k is the allowed variant expenditure in year k expressed in 2009/10

prices, for sole-use enabling works to accommodate new or additional generation capacity calculated in accordance with paragraph 7 this condition;

$VSHE_k$ is the allowed variant expenditure in year k expressed in 2009/10 prices, for shared-use enabling works to accommodate new or additional generation capacity calculated in accordance with paragraph 8 of this condition.

7. For the purposes of the Principal Formula, the value of $VSUE_k$ for Relevant Year k is to be derived from the following formula:

(i) If $RG_k \leq 2,503\text{MW}$ and $k < 8$ then:

$$VSUE_k = 0$$

(ii) If $RG_k > 2,503\text{MW}$ then:

$$VSUE_k = (RG_k - \max(2503, RG_{k-1})) \times \text{SoleUCA}_k$$

Otherwise

$$VSUE_k = (RG_k - 2503) \times \text{SoleUCA}_k$$

where:

RG_k means the relevant generation capacity as at 31 March of Relevant Year k as reported by the licensee in accordance with the Price Control Reporting RIGs.

$BSUE_k$ means the Licensee's baseline allowed expenditure for sole use connections for Relevant Year k as set out in the following table.

| £m | | | | | | | |
|-------|-------|-------|-------|-------|-------|-------|-------|
| 13/14 | 14/15 | 15/16 | 16/17 | 17/18 | 18/19 | 19/20 | 20/21 |
| | | | | | | | |

SoleUCA_k is the allowed expenditure per MW of relevant generation capacity, adjusted for real price effects of 1.5% and a 1% allowance for operation and maintenance costs, expressed in 2009/10 prices, for sole-use enabling works and is derived from the following formula.

$$\text{SoleUCA}_k = £43,000 * ((1+0.01) + (1+0.015)^n)$$

n means the number of completed regulatory years and in 2013/14 shall have a value of 1 .

8. For the purposes of the Principal Formula, the value of $VSHE_k$ in Relevant Year k is to be derived from the following formula:

$$VSHE_k = \sum_c (SHRD_{c,k} \times DFlag_c)$$

where:

$$SHRD_{c,k} = \left[\sum_{n=1}^5 (QSS_{c,k,n} \times USS_n) \right] + \left[\sum_{m=1}^4 (QOL_{c,k,m} \times UOL_m) \right] + \left[\sum_{l=1}^3 (QCW_{c,k,l} \times UCW_l) \right]$$

Is the Shared Revenue Driver Composite Cost for project c (comprising asset quantities n,m,l from each category table) for year k

DFlag_c (i) If $NAR_k \leq 1,096MW$ then $DFlag_c = 0$ for all projects c commissioned in year k.

(ii) If $NAR_k > 1,096MW$ then $DFlag_c = \left[\frac{NAR_k - \max(1096, NAR_{k-1})}{NAR_k - NAR_{k-1}} \right]$ for all projects c commissioned in year k.

[if $NAR_k = NAR_{k-1}$ then nothing was commissioned in k so divide by zero isn't a problem]

NAR_k means the relevant installed capacity in MW delivered by shared-use infrastructure works projects as at 31 March of Relevant Year k as reported by the licensee in accordance with the Price Control Reporting RIGs.

$BSHE_k$ means the Licensee's baseline allowed expenditure, in 2009/10 prices, for shared use connections for Relevant Year k as set out in the following table:

| £m | | | | | | | |
|------|------|------|------|------|------|------|------|
| 13/1 | 14/1 | 15/1 | 16/1 | 17/1 | 18/1 | 19/2 | 20/2 |
| 4 | 5 | 6 | 7 | 8 | 9 | 0 | 1 |
| | | | | | | | |

$QSS_{n,k}$ means the quantity of Substation Works commissioned in respect of type and capacity n and Relevant Year k for shared-use enabling works, where capacity and type are set out in table 2:

$USS_{n,k}$ means the specific matrix costs in respect of Substation type and capacity n and Relevant Year k for the licensee's Transmission System, as set out in table 2.

Table 2: Substation works and unit costs

| Type and capacity n | Substation Works | Unit costs £000s (2009/10 prices) |
|---------------------|------------------------|-----------------------------------|
| 1 | 400kV/132kV substation | 23,412 |

| | | |
|---|------------------------------------------|-------|
| 2 | 275kV/33kV substation transformer feeder | 8,005 |
| 3 | 275kV/33kV substation single switch | 8,459 |
| 4 | 132kV/33kV substation transformer feeder | 6,297 |
| 5 | 132kV/33kV substation single switch | 6,541 |

$QOL_{m,k}$ means the quantity of Overhead Line commissioned in respect of length and capacity m and Relevant Year k for shared-use enabling works, where length and capacity are defined in table 3.

$UOL_{m,k}$ means the specific matrix costs in respect of Overhead Line length and capacity m and Relevant Year k for shared-use enabling works, as set out in table 3.

Table 3: Overhead line capacities, adjustments and unit costs

| Length and capacity m | Overhead line | Unit costs £000s (2009/10 prices) |
|-----------------------|-----------------------------------------|-----------------------------------|
| 1 | 275kV/400kV L8 construction – 20km | 25,450 |
| 2 | L8 adjustment per km (+/-) on 20km cost | 1,022 |
| 3 | 132kV/33kV L7 construction – 20km | 20,180 |
| 4 | L7 adjustment per km (+/-) on 20km cost | 761 |
| 5 | | 936 |

Note: Rows 2 and 4 in Table 2 represent the unit cost adjustment for variances in cable length (expressed in km) around the relevant 20km unit costs in rows 1 and 3.

For example, the cost for 17km of 275kV/400kV construction (in £000) would be $1 \times 25450 + (17-20) \times 1022 = 22384$. Here $QOL_{1,t} = 1$ and $QOL_{2,t} = -3$

$QCW_{l,k}$ means the quantity of Civil Works commissioned in respect of type l and Relevant Year k for shared-use enabling works, where type are set out in table 4.

UCW_{i,k} means the specific matrix costs in respect of Civil Works type I and Relevant Year k for the licensee's Transmission System, as set out in table 4.

Table 4: Civil works and unit costs

| Type I | Civil works | Unit costs £000s (2009/10 prices) |
|--------|------------------------------------------------------------|-----------------------------------|
| 1 | Removal and processing/disposal of rock per m ³ | 0.119 |
| 2 | Removal and off-site disposal of peat per m ³ | 0.055 |
| 3 | Haulage road construction per km | 119 |

9. The licensee will report annually on relevant generation connections and relevant installed asset rating completed and commissioned after 31 March 2013 and on its actual expenditure incurred in accordance with standard condition [ETC74] Regulatory Instructions and Guidance.
10. The Authority shall, by 30 November in each Relevant Year t-1 issue a direction, in accordance with the provisions of Part C of this condition, specifying the revised GCE values for Relevant Year k = t-2.
11. The Authority may also revise the GCE value for a Relevant Year or Years k earlier than Relevant Year t-2 ('earlier Relevant Years'), notwithstanding that the GCE values concerned might have been previously revised, provided that:
 - a. the revision is necessary to reflect a review by the Authority of the values of the terms VSUE_k, or VSHE_k pertaining to the earlier Regulatory Years or to correct errors in relation to those values;
 - b. the revised GCE value for the earlier Relevant Years is calculated in accordance with the formula set out in Part B; and
 - c. the revised GCE value for the earlier Relevant Years is specified in a direction issued in accordance with the provisions of Part C of this condition.

Part C: Procedure for direction of revised GCE values by the Authority

12. Any revised GCE values determined by the Authority in accordance with Part B 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.
13. A direction issued by the Authority under paragraph 12 is of no effect unless the Authority has first:
 - (a) given Notice to interested parties that it proposes to issue a direction under paragraph 12:

- (i) Specifying the date on which it proposes that the direction should take effect;
- (ii) stating, where appropriate, that any GCE values have been determined in accordance with Part B 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.

14. Where the Authority directs any revised GCE values for 'earlier Regulatory Years' under paragraph 11 in Part B of this condition, the effect of using those revised GCE values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a carrying value adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt, it shall not have any retrospective effect on a previously directed value of the term MOD.
15. If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised GCE values by 30 November, or as soon as reasonably practicable thereafter, then no revised GCE values will be used in the Annual Iteration Process that is required by [ETC26] Special Condition [x] to be undertaken by the Authority by 30 November in that same Relevant Year t-1. In those circumstances, the Authority shall take full account of the position when determining and directing any revised GCE values in respect of the next Annual Iteration Process.

**[ETC 55] Special Condition [x] Baseline generation connection outputs
and generation connections volume driver [NGET &SHETL version]**

For inclusion with Second Informal Licence Consultation.

[ETC 18] Special Condition [x]. Enhancement to Pre-existing Infrastructure in National Parks and Areas of Outstanding Natural Beauty

[To note generic introduction paragraphs relating to the interaction with the financial model to be reviewed in order to ensure consistency with other conditions that result in a change to MOD]

Introduction

1. The purposes of this condition are:

- a. to specify the Enhancements to Pre-existing Infrastructure (EPI) Outputs the Licensee shall deliver during the price control period and the allowed expenditure associated with those EPI Outputs; and
- b. to determine any revisions to the PCFM Variable Values relating to EPI Allowed Expenditure ('EPIE' values) and the Relevant Years to which those revised EPIE values relate for use in the the Annual Iteration Process for the ET1 Price Control Financial Model as described in [ETC26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model).

2. For the purposes of this condition:

'Enhancement to Pre-existing Infrastructure' means a reduction in the impact of transmission assets, which have been in place previously, on the visual amenity of National Parks and Areas of Outstanding Natural Beauty ("designated areas") such that meet the licensee's criteria set out in its Enhancements to Pre-existing Infrastructure Policy prepared in accordance with Part C of this condition.

'EPI Outputs' means those EPI Outputs that are set out in Table 1 of Part B of this condition.

'National Parks and Areas of Outstanding Natural Beauty' mean areas that have a statutory designation as a National Park or Area of Outstanding Natural Beauty under the National Parks and Access to the Countryside Act 1949 to protect and conserve the natural beauty of the landscape.

3. The EPIE value relating to a particular Relevant Year represents the total amount of allowed expenditure (in 2009/10 prices) for EPI Outputs for that Relevant Year as determined in accordance with this condition.

Part A: Application of the mechanisms in this condition

4. The application of the mechanisms set out in this condition provides for:

- a. the specification of EPI Outputs (Parts B and C);
- b. a modification mechanism (Part D); and
- c. the determination and direction by the Authority of revised EPIE values to reflect changes to the allowed expenditure so that, as a consequence of the Annual Iteration Process, the value of the MOD(TO) term as calculated for Relevant Year t for the purposes of Part C of Special Condition [ETC20] (Restriction of Transmission Network Revenue) will result in an adjustment of the Licensee's Base Transmission Network Activity Revenue (whether upwards or downwards) in a manner that:
 - i. reflects approved changes to allowed expenditure for Enhancement to Pre-existing Infrastructure Outputs specified in this condition; and
 - ii. takes account of approved changes to allowed expenditure for Enhancement to Pre-existing Infrastructure Outputs specified in this condition for the purposes of the Totex Incentive Mechanism Adjustment as set out in Part [x of [ETC 47] Special Condition [x] (Determination of PCFM Variable Values for Totex Incentive Mechanism adjustments – Transmission Owner) and in accordance with the methodology set out in Chapter [x] of the ET1 Price Control Financial Handbook.

5. This condition should be read and construed in conjunction with, [ETC26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Model), and [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

Part B: EPI Outputs

6. Table 1 sets out the details of the EPI Outputs the licensee shall deliver during the price control period.

Table 1: EPI Outputs

| Designated area | Description of mitigation | Commissioning date |
|-----------------|---------------------------|--------------------|
| | | |
| | | |
| | | |

7. Subject to paragraph 12, the licensee may request that the Authority approve EPI Outputs during the price control period where these proposed EPI Outputs are compliant with the licensee's Enhancement to Pre-existing

Infrastructure Policy which, pursuant to the provisions of Part C of this condition, has been approved by the Authority.

8. Subject to paragraph 17, the Authority may specify EPI Outputs in Table 1 pursuant to the provisions of Part D of this condition.
9. The licensee will report annually on progress in delivering the EPI Outputs and its actual expenditure incurred to the Authority in accordance with Regulatory Instructions and Guidance.
10. The licensee's delivery of the EPI Outputs specified in Table 1 shall be monitored by the Authority against the licensee's Enhancements to Pre-existing Infrastructure Policy and the information referred to in paragraph 9 of this condition.
11. Where the licensee has not delivered or has only partially delivered an EPI Output set out in Table 1, the Authority shall, in calculating values for EPIE, adjust allowed expenditure in relation to the EPI Output to ensure only efficient costs are recovered.

Part C: Enhancements to Pre-existing Infrastructure Policy

12. Before requesting the Authority to specify EPI Outputs in Table 1 the licensee shall submit to the Authority an Enhancing Pre-existing Infrastructure Policy ("the policy").
13. The licensee must set out in its policy the objectives and methodology for identifying potential EPI Outputs on its transmission system. This should include:
 - a. an explanation of the EIP Outputs that would result in a reduced impact of pre-existing transmission assets on the visual amenity of designated areas;
 - b. tests or evaluation to be carried out before and after the EIP Output was delivered to verify the reduced impact of pre-existing transmission assets on the visual amenity of designated areas;
 - c. the criteria the licensee will use to evaluate and prioritise EIP Outputs such as value for money, contribution to sustainable development;
 - d. how the licensee will work with local communities and interested stakeholders to identify potential EPI Outputs; and

- e. how the licensee will maintain the policy so that it is up to date with industry best practice.

14. Unless the Authority otherwise directs within two months of the date of submission of the statement by the licensee in accordance with paragraph 12, the licensee must take all reasonable steps to apply the methodology set out in that statement.

15. Before revising the methodology set out in the statement, the licensee must submit a copy of the proposed revisions to the Authority.

16. Unless the Authority otherwise directs within one month after receiving the proposed revisions under paragraph 15, the licensee must take all reasonable steps to apply the methodology in accordance with the proposed revisions.

Part D: Modification to specify Enhancement to Pre-existing Infrastructure Outputs

17. The Authority may direct modifications to Table 1 in Part B and Table 2 in this Part D in order to include or modify details, including the amount of allowed expenditure, of EPI Outputs through the provisions of this Part D.

18. A direction issued by the Authority under paragraph 17 is of no effect unless the Authority has first:

- (a) given Notice to interested parties that it proposes to issue a direction under paragraph 17:

- (i) specifying the date on which it proposes that the direction should take effect;

- (ii) stating, where appropriate, that any output and/or allowed expenditure adjustments that have been determined in accordance with Part B and Part D of this condition;

- (iii) provide an update on the remaining allowance available during RIIO-T1 to fund EPI outputs; and

- (iv) 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.

Licensee's notice to the Authority

19. The licensee may ask the Authority to make modifications under paragraph 17 by giving notice of its request to the Authority in such form as the Authority may from time to time require.

20. A notice under paragraph 21 must contain:

- a) a description of the proposed new EPI Output and the benefits it will deliver in terms of the reduced impacts on the visual amenity of a designated area;
- b) supporting evidence that the proposed EPI Output has been developed in accordance with the licensee's Proposing a Pre-existing Infrastructure Enhancement Policy which, pursuant to the provisions of Part C of this condition, has been approved by the Authority;
- c) details of the mitigation measure and the delivery programme;
- d) forecast costs to be incurred in each Relevant Year and a breakdown of the forecast costs of the EPI Output;
- e) a description of the proposed EPI Output in the form set out in Table 1 in Part B; and
- f) any other analysis or information that the Authority considers may be relevant to its consideration of the licensee's request.

Determination by the Authority

21. Where the Authority receives a notice from the licensee under paragraph 21 in relation to an Enhancement to Pre-existing Infrastructure Output, it will determine:

- a) whether the proposed EPI Output is compliant with the licensee's Proposing a Pre-existing Infrastructure Enhancement Policy which, pursuant to the provisions of Part C of this condition, has been approved by the Authority;
- b) whether the proposed costs of delivering the EPI output are efficient;
- c) whether there is sufficient funding available under the expenditure cap set out in Final Proposals; and if so
- d) the adjustment that is to be given effect through a modification under this Part D.

Revocation

22. The Authority may, with the consent of the licensee, revoke a determination made under paragraph 23.

Part E: Determination of revisions to EPIE values

23. This part sets out the basis for determining revisions to EPIE value for use in the Annual Iteration Process for the ET1 Price Control Financial Model.

24. Table 2 below sets out the amounts of allowed expenditure for EPI Outputs after any modifications directed under Part D of this condition for each Relevant Year of the price control.

Table 2: Allowed Expenditure for EPI Outputs

| £m (2009/10 prices) | 2013/ 14 | 2014/ 15 | 2015/ 16 | 2016/ 17 | 2017/ 18 | 2018/ 19 | 2019/ 20 | 2020/ 21 |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Sub total for licensee | | | | | | | | |

25. The Authority shall, by 30 November in each Relevant Year t-1 check whether the EPIE value for any Relevant Year is different from the licensee's allowed expenditure sub-total for the corresponding Relevant Year set out in Table 2 and, in any case where it is different, the Authority shall:

- a. determine that the EPIE value for the Relevant Year concerned is to be revised so as to match the allowed expenditure total in Table 2; and
- b. issue a direction, in accordance with the provisions of Part F of this condition specifying any revised EPIE values determined under subparagraph (a) and the Relevant Years to which they relate.

Part F: Procedure for direction of revised EPIE values by the Authority

26. Any revised EPIE values determined by the Authority in accordance with Part E 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.

27. A direction issued by the Authority under paragraph 26 is of no effect unless the Authority has first:

- (a) given Notice to interested parties that it proposes to issue a direction under paragraph 27:
 - (i) specifying the date on which it proposes that the direction should take effect;
 - (ii) stating, where appropriate, that any revised EPIE values have been determined in accordance with Part E of this condition; and
 - (iv) 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.

28. Where the Authority directs any revised EPIE values relating to Relevant Years which are earlier than Relevant Year t, the effect of using those revised EPIE values in the Annual Iteration Process for the ET1 Price Control Financial Model will, subject to a carrying value adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt, it shall not have any retrospective effect on a previously directed value of the term MOD.

[ETC 28] Special Condition [x]. Arrangements for the recovery of uncertain costs [NGET version]

[To note generic introduction paragraphs relating to the interaction with the financial model to be reviewed in order to ensure consistency with other conditions that result in a change to MOD]

Introduction

- 28.1 The purpose of this condition is to allow the licensee or the Authority to propose, and the Authority to determine, such adjustments (“relevant adjustments”) as are necessary to enable the licensee to recover the categories of costs set out in paragraph 28.4 (each “a relevant cost category”) insofar as they are efficiently incurred.
- 28.2 The IAE term derived in accordance with this condition will be a revised PCFM Variable Value for the Annual Iteration Process for the T1 Price Control Financial Model as described in [ETC26] Special Condition [x] (Annual Iteration Process for the T1 Price Control Financial Model). As a consequence of the Annual Iteration Process, the value of the term MOD as calculated for Relevant Year for the purposes of Part C of [ETC20] Special Condition [x] (Restriction of Transmission Network Revenue) will result in an adjustment of the licensee’s Base Transmission Network Activity Revenue (whether upwards or downwards) in a manner that is consistent with the policy outlined in the T1 Price Control Financial Methodologies contained within the T1 Price Control Financial Handbook.
- 28.3 The IAE term derived in accordance with this condition will also constitute an element of [Total Allowed Totex] for the purposes of deriving the [efficiency incentive performance] as set out in Part E of [ETC47] Special Condition [x] (Determination of PCFM Variable Values for Totex Incentive Mechanism adjustments – Transmission Owner). Total Allowed Totex is calculated in accordance with the methodology set out in Chapter [x] of the T1 Price Control Financial Methodologies contained within the T1 Price Control Financial Handbook.
- 28.4 The relevant cost categories referred to in paragraph 28.1 are:
- (a) Enhanced Physical Site Security Costs.
- 28.5 The licensee or the Authority may propose relevant adjustments in respect of a relevant cost category only during certain periods (“application windows”) that are specified in Part B below.

Part A: Licensee’s or Authority’s ability to propose a relevant adjustment

- 28.6 The licensee may by Notice to the Authority, and the Authority may by Notice to the licensee, propose, in accordance with Parts B and C below, a relevant adjustment to the PCFM Variable Value in relation to any relevant cost category where the costs within that category:

- (a) are Relevant Costs within the meaning of paragraph 28.7; and
- (b) constitute a material amount within the meaning of paragraph 28.8.

28.7 The Relevant Costs in respect of a relevant cost category are any new or additional costs (net of any cost savings that are fortuitous or otherwise not attributable to prudent management action) that were not allowed for in the costs included for that category when the Authority determined the Special Conditions.

28.8 A material amount in respect of any relevant cost category is the amount of Relevant Costs within that category, when multiplied by the licensee's Efficiency Incentive Rate as set out in Appendix 1, that exceeds or is likely to exceed 1 per cent of the licensee's Average Annual Forecast Revenue over the Price Control Period beginning on 1 April 2013 as set out in Appendix 2.

28.9 A relevant adjustment is one:

- (a) which the licensee or the Authority believes would have the effect of enabling the licensee to recover Relevant Costs which would not otherwise be recoverable under the Special Conditions; and
- (b) which applies only in respect of Relevant Costs that the licensee has incurred, or is likely to incur, on and after 1 April 2013.

Part B: Application windows for relevant adjustment proposals

28.10 There are two application windows during which a relevant adjustment may be proposed by Notice served under Part A above:

- (a) the first application window opens on 1 May 2015 and closes on 31 May 2015; and
- (b) the second application window opens on 1 May 2018 and closes on 31 May 2018.

28.11 A Notice served under Part A above may not be served outside the application windows set out in 28.10 above.

28.12 A relevant adjustment relating to any relevant cost category may be proposed during both the first application window and the second application window provided that in relation to each such application the proposal complies with the provisions of paragraphs 28.7 and 28.8.

28.13 Any relevant adjustment proposed outside the appropriate application window as set out in paragraph 28.10 will not be determined by the Authority under the process that is provided for in this condition.

Part C: Other provisions relating to relevant adjustment proposals

28.14 A Notice served under Part A must in all cases:

- (a) state the obligations or requirements to which the Notice relates;

- (b) set out the basis on which the relevant adjustment in respect of each relevant cost category to which the Notice relates has been calculated; and
- (c) state the date from which it is proposed that the relevant adjustment will have effect (“the adjustment date”).

28.15 The adjustment date must not be a date that is earlier than:

- (a) 1 April 2016 in the case of a relevant adjustment proposed during the first application window; and
- (b) 1 April 2019 in the case of a relevant adjustment proposed during the second application window.

Part D: Authority’s power to determine the relevant adjustment

28.16 Where a Notice has been served under Part A above, the Authority may, within four months after the close of the appropriate application window, after consulting the licensee, determine the relevant adjustment that is to be made to the PCFM Variable Value in such manner as it considers appropriate having regard to the purposes of this condition.

28.17 In determining any relevant adjustment under this Part D, the Authority must:

- (a) consult with the licensee;
- (b) have particular regard to the purposes of this condition; and
- (c) take no account of the financial performance of the licensee in relation to any of the assumptions (excluding any assumption mentioned in paragraph 28.7) by reference to which the Special Conditions were determined.

28.18 The provisions of Part E below are also relevant to the Authority’s use of its power of determination under this Part D.

Part E: Other provisions relating to the power of determination

28.19 In determining a relevant adjustment under Part D above the Authority may confirm, reject, or vary the proposed relevant adjustment.

28.20 Without limiting the general effect of paragraph 28.19, a determination by the Authority of a relevant adjustment may include such adjustments as it thinks fit in respect of costs likely to be incurred by the licensee in any subsequent Relevant Year within the relevant cost category to which the relevant adjustment relates.

Part F: Licensee’s right to make the relevant adjustment

28.21 If the Authority has not determined a relevant adjustment proposed in a Notice given to the Authority by a licensee under Part A within four months of the close of the appropriate application window, and that Notice has not been withdrawn, the licensee may give Notice to the

Authority that the relevant adjustment will take effect from the adjustment date for all relevant purposes under the Special Conditions.

Part G: Treatment of an adjustment or a relevant adjustment

28.22 The amount of the term IAET for the purposes of deriving the PCFM Variable Value for the Annual Iteration Process is the total amount of any relevant adjustment (or adjustments) in respect of any Relevant Year t, whether determined by the Authority under Part D or made by the licensee under Part F of this condition.

Part H: Interpretation

28.23 For the purposes of this condition, the following definitions apply:

Efficiency Incentive Rate means the incentive rate for the licensee, and set out in Appendix 1 to this condition.

Enhanced Physical Site Security Costs means Relevant Costs incurred by the licensee for the purposes of implementing any formal recommendation or requirement of the Secretary of State to enhance the physical security of any of the sites within the licensee’s Transmission Network.

Relevant Costs has the meaning given to that term at paragraph 28.7 of this condition.

28.23 Expressions defined in paragraph 28.22 are to be read and given effect subject to any further explanation or elaboration set out in the relevant Regulatory Instructions and Guidance issued by the Authority under [ETC74] (Regulatory Instructions and Guidance).

APPENDIX 1: EFFICIENCY INCENTIVE RATES

(see paragraph 28.8 of this condition)

| Electricity Licensee | Incentive rate |
|-----------------------------|-----------------------|
| Electricity/ T Licensee 1 | XX per cent |
| Electricity T Licensee 2 | XX per cent |
| Electricity T Licensee 3 | XX per cent |

APPENDIX 2: AVERAGE ANNUAL FORECAST REVENUE OVER THE PRICE CONTROL PERIOD

(see paragraph 28.8 of this condition)

| Electricity Licensee | £m (2009/10 prices) |
|-----------------------------|----------------------------|
| Electricity/ Licensee 1 | AA.A |
| Electricity T Licensee 2 | BB.B |
| Electricity T Licensee 3 | CC.C |

[ETC 28] Special Condition [x]. Arrangements for the recovery of uncertain costs [SHETL version]

[To note generic introduction paragraphs relating to the interaction with the financial model to be reviewed in order to ensure consistency with other conditions that result in a change to MOD]

Introduction

- 28.1 The purpose of this condition is to allow the licensee or the Authority to propose, and the Authority to determine, such adjustments (“relevant adjustments”) as are necessary to enable the licensee to recover the categories of costs set out in paragraph 28.4 (each “a relevant cost category”) insofar as they are efficiently incurred.
- 28.2 The IAE term derived in accordance with this condition will be a revised PCFM Variable Value for the Annual Iteration Process for the T1 Price Control Financial Model as described in [ETC26] Special Condition [x] (Annual Iteration Process for the T1 Price Control Financial Model). As a consequence of the Annual Iteration Process, the value of the term MOD as calculated for Relevant Year for the purposes of Part C of [ETC 20] Special Condition [x] (Restriction of Transmission Network Revenue) will result in an adjustment of the licensee’s Base Transmission Network Activity Revenue (whether upwards or downwards) in a manner that is consistent with the policy outlined in the T1 Price Control Financial Methodologies contained within the T1 Price Control Financial Handbook.
- 28.3 The IAE term derived in accordance with this condition will also constitute an element of [Total Allowed Totex] for the purposes of deriving the [efficiency incentive performance] as set out in Part E of [ETC47] Special Condition [x] (Determination of PCFM Variable Values for Totex Incentive Mechanism adjustments – Transmission Owner). Total Allowed Totex is calculated in accordance with the methodology set out in Chapter [x] of the T1 Price Control Financial Methodologies contained within the T1 Price Control Financial Handbook.
- 28.4 The relevant cost categories referred to in paragraph 28.1 are:
- (a) Enhanced Physical Site Security Costs;
 - (b) BT 21st Century Costs; and
 - (c) Compensation Costs to Landowners for Wayleave.
- 28.5 The licensee or the Authority may propose relevant adjustments in respect of a relevant cost category only during certain periods (“application windows”) that are specified in Part B below.

Part A: Licensee’s or Authority’s ability to propose a relevant adjustment

- 28.6 The licensee may by Notice to the Authority, and the Authority may by Notice to the licensee, propose, in accordance with Parts B and C below, a relevant adjustment to the PCFM Variable Value in relation to any relevant cost category where the costs within that category:
- (a) are Relevant Costs within the meaning of paragraph 28.7; and
 - (b) constitute a material amount within the meaning of paragraph 28.8.
- 28.7 The Relevant Costs in respect of a relevant cost category are any new or additional costs (net of any cost savings that are fortuitous or otherwise not attributable to prudent management action) that were not allowed for in the costs included for that category when the Authority determined the Special Conditions.
- 28.8 A material amount in respect of any relevant cost category is the amount of Relevant Costs within that category, when multiplied by the licensee's [Efficiency Incentive Rate] as set out in Appendix 1, that exceeds or is likely to exceed 1 per cent of the licensee's Average Annual Forecast Revenue over the Price Control Period beginning on 1 April 2013 as set out in Appendix 2.
- 28.9 A relevant adjustment is one:
- (a) which the licensee or the Authority believes would have the effect of enabling the licensee to recover Relevant Costs which would not otherwise be recoverable under the Special Conditions; and
 - (b) which applies only in respect of Relevant Costs that the licensee has incurred, or is likely to incur, on and after 1 April 2013.

Part B: Application windows for relevant adjustment proposals

- 28.10 There are two application windows during which a relevant adjustment may be proposed by Notice served under Part A above:
- (a) the first application window opens on 1 May 2015 and closes on 31 May 2015; and
 - (b) the second application window opens on 1 May 2018 and closes on 31 May 2018.
- 28.11 A Notice served under Part A above may not be served outside the application windows set out in 28.10 above.
- 28.12 A relevant adjustment relating to any relevant cost category may be proposed during both the first application window and the second application window provided that in relation to each such application the proposal complies with the provisions of paragraphs 28.7 and 28.8.
- 28.13 Any relevant adjustment proposed outside the appropriate application window as set out in paragraph 28.10 will not be determined by the Authority under the process that is provided for in this condition.

Part C: Other provisions relating to relevant adjustment proposals

28.14 A Notice served under Part A must in all cases:

- (a) state the obligations or requirements to which the Notice relates;
- (b) set out the basis on which the relevant adjustment in respect of each relevant cost category to which the Notice relates has been calculated; and
- (c) state the date from which it is proposed that the relevant adjustment will have effect ("the adjustment date").

28.15 The adjustment date must not be a date that is earlier than:

- (a) 1 April 2016 in the case of a relevant adjustment proposed during the first application window; and
- (b) 1 April 2019 in the case of a relevant adjustment proposed during the second application window.

Part D: Authority's power to determine the relevant adjustment

28.16 Where a Notice has been served under Part A above, the Authority may, within four months after the close of the appropriate application window, after consulting the licensee, determine the relevant adjustment that is to be made to the input variable in such manner as it considers appropriate, having regard to the purposes of this condition.

28.17 In determining any relevant adjustment under this Part D, the Authority must:

- (a) consult with the licensee;
- (b) have particular regard to the purposes of this condition; and
- (c) take no account of the financial performance of the licensee in relation to any of the assumptions (excluding any assumption mentioned in paragraph 28.7) by reference to which the Special Conditions were determined.

28.18 The provisions of Part E below are also relevant to the Authority's use of its power of determination under this Part D.

Part E: Other provisions relating to the power of determination

28.19 In determining a relevant adjustment under Part D the Authority may confirm, reject, or vary the proposed relevant adjustment.

28.20 Without limiting the general effect of paragraph 28.19, a determination by the Authority of a relevant adjustment may include such adjustments as it thinks fit in respect of costs likely to be incurred by the licensee in any subsequent Relevant Year within the relevant cost category to which the relevant adjustment relates.

Part F: Licensee's right to make the relevant adjustment

28.21 If the Authority has not determined a relevant adjustment proposed in a Notice given to the Authority by a licensee under Part A within four months of the close of the appropriate application window, and that Notice has not been withdrawn, the licensee may give Notice to the Authority that the relevant adjustment will take effect from the adjustment date for all relevant purposes under the Special Conditions.

Part G: Treatment of an adjustment or a relevant adjustment

28.22 The amount of the term IAET for the purposes of deriving the PCFM Variable Value for the Annual Iteration Process is the total amount of any relevant adjustment (or adjustments) in respect of any Relevant Year, whether determined by the Authority under Part D or made by the licensee under Part F of this condition.

Part H: Interpretation

28.23 For the purposes of this condition, the following definitions apply:

BT 21st Century Costs means Relevant Costs incurred by the licensee for upgrading of operational telecommunication systems resulting from the introduction of BT's 21st Century Networks programme.

Compensation Costs to Landowners for Wayleave means Relevant Costs incurred by the licensee in relation to the payment of reasonable claims to the parties to Wayleave Agreements and / or Deeds of Servitude held by the licensee where such costs are reasonably incurred under the terms of Wayleave Agreements and / or Deeds of Servitude which were not reasonably foreseen at the time of agreeing the relevant Wayleave Agreement or Deed of Servitude.

Efficiency Incentive Rate means the incentive rate for the licensee, and set out in Appendix 1 to this condition.

Enhanced Physical Site Security Costs means Relevant Costs incurred by the licensee for the purposes of implementing any formal recommendation or requirement DECC to enhance the physical security of any of the sites within the licensee's Transmission Network.

Relevant Costs has the meaning given to that term at paragraph 28.7 of this condition.

28.24 Expressions defined in paragraph 28.22 are to be read and given effect subject to any further explanation or elaboration set out in the relevant Regulatory Instructions and Guidance issued by the Authority under [ETC74] (Regulatory Instructions and Guidance).

APPENDIX 1: EFFICIENCY INCENTIVE RATES

(see paragraph 28.8 of this condition)

| Electricity Licensee | Incentive rate |
|-----------------------------|-----------------------|
| Electricity/ T Licensee 1 | XX per cent |
| Electricity T Licensee 2 | XX per cent |
| Electricity T Licensee 3 | XX per cent |

APPENDIX 2: AVERAGE ANNUAL FORECAST REVENUE OVER THE PRICE CONTROL PERIOD

(see paragraph 28.8 of this condition)

| Electricity Licensee | £m (2009/10 prices) |
|-----------------------------|----------------------------|
| Electricity/ Licensee 1 | AA.A |
| Electricity T Licensee 2 | BB.B |
| Electricity T Licensee 3 | CC.C |

[ETC 28] Special Condition [x]. Arrangements for the recovery of uncertain costs [SPTL version]

[To note generic introduction paragraphs relating to the interaction with the financial model to be reviewed in order to ensure consistency with other conditions that result in a change to MOD]

Introduction

- 28.1 The purpose of this condition is to allow the licensee or the Authority to propose, and the Authority to determine, such adjustments (“relevant adjustments”) as are necessary to enable the licensee to recover the categories of costs set out in paragraph 28.4 (each “a relevant cost category”) insofar as they are efficiently incurred.
- 28.2 The IAE term derived in accordance with this condition will be a revised PCFM Variable Value for the Annual Iteration Process for the T1 Price Control Financial Model as described in [ETC26] Special Condition [x] (Annual Iteration Process for the T1 Price Control Financial Model). As a consequence of the Annual Iteration Process, the value of the term MOD as calculated for Relevant Year for the purposes of Part C of [ETC20] Special Condition [x] (Restriction of Transmission Network Revenue) will result in an adjustment of the licensee’s Base Transmission Network Activity Revenue (whether upwards or downwards) in a manner that is consistent with the policy outlined in the T1 Price Control Financial Methodologies contained within the T1 Price Control Financial Handbook.
- 28.3 The IAE term derived in accordance with this condition will also constitute an element of [Total Allowed Totex] for the purposes of deriving the [efficiency incentive performance] as set out in Part E of [ETC 47] Special Condition [x] (Determination of PCFM Variable Values for Totex Incentive Mechanism adjustments – Transmission Owner). Total Allowed Totex is calculated in accordance with the methodology set out in Chapter [x] of the T1 Price Control Financial Methodologies contained within the T1 Price Control Financial Handbook.
- 28.4 The relevant cost categories referred to in paragraph 28.1 are:
- (a) Enhanced Physical Site Security Costs
 - (b) Work Force Renewal Costs.
- 28.5 The licensee or the Authority may propose relevant adjustments in respect of a relevant cost category only during certain periods (“application windows”) that are specified in Part B below.

Part A: Licensee’s or Authority’s ability to propose a relevant adjustment

- 28.6 The licensee may by Notice to the Authority, and the Authority may by Notice to the licensee, propose, in accordance with Parts B and C below, a

relevant adjustment to the PCFM Variable Value in relation to any relevant cost category where the costs within that category:

- (a) are Relevant Costs within the meaning of paragraph 28.7; and
- (b) constitute a material amount within the meaning of paragraph 28.8.

28.7 The Relevant Costs in respect of a relevant cost category are any new or additional costs (net of any cost savings that are fortuitous or otherwise not attributable to prudent management action) that were not allowed for in the costs included for that category when the Authority determined the Special Conditions.

28.8 A material amount in respect of any relevant cost category is the amount of Relevant Costs within that category, when multiplied by the licensee's Efficiency Incentive Rate as set out in Appendix 1, that exceeds or is likely to exceed 1 per cent of the licensee's Average Annual Forecast Revenue over the Price Control Period beginning on 1 April 2013 as set out in Appendix 2.

28.9 A relevant adjustment is one:

- (a) which the licensee or the Authority believes would have the effect of enabling the licensee to recover Relevant Costs which would not otherwise be recoverable under the Special Conditions; and
- (b) which applies only in respect of Relevant Costs that the licensee has incurred, or is likely to incur, on and after 1 April 2013.

Part B: Application windows for relevant adjustment proposals

28.10 There are three application windows during which a relevant adjustment may be proposed by Notice served under Part A above:

- (a) the first application window opens on 1 May 2015 and closes on 31 May 2015;
- (b) the second application window opens on 1 May 2016 and closes on 31 May 2016; and
- (c) the third application window opens on 1 May 2018 and closes on 31 May 2018.

28.11 A Notice served under Part A above may not be served outside the application windows set out in 28.10 above.

28.12 A relevant adjustment relating to Enhanced Physical Site Security Costs may be proposed during both the first application window and the third application window provided that in relation to each such application the proposal complies with the provisions of paragraphs 28.7 and 28.8.

28.13 A relevant adjustment relating to Work Force Renewal Costs may be proposed during only the second application window provided that the proposal complies with the provisions of paragraphs 28.7 and 28.8.

28.14 Any relevant adjustment proposed outside the appropriate application window as set out in paragraph 28.10 will not be determined by the Authority under the process that is provided for in this condition.

Part C: Other provisions relating to relevant adjustment proposals

28.15 A Notice served under Part A must in all cases:

- (a) state the obligations or requirements to which the Notice relates;
- (b) set out the basis on which the relevant adjustment in respect of each relevant cost category to which the Notice relates has been calculated; and
- (c) state the date from which it is proposed that the relevant adjustment will have effect ("the adjustment date").

28.16 The adjustment date must not be a date that is earlier than:

- (a) 1 April 2016 in the case of a relevant adjustment proposed during the first application window;
- (b) 1 April 2017 in the case of a relevant adjustment proposed during the second application window; and
- (c) 1 April 2019 in the case of a relevant adjustment proposed during the third application window.

Part D: Authority's power to determine the relevant adjustment

28.17 Where a Notice has been served under Part A above, the Authority may, within four months after the close of the appropriate application window, after consulting the licensee, determine the relevant adjustment that is to be made to the input variable in such manner as it considers appropriate, having regard to the purposes of this condition.

28.18 In determining any relevant adjustment under this Part D, the Authority must:

- (a) consult with the licensee;
- (b) have particular regard to the purposes of this condition; and
- (c) take no account of the financial performance of the licensee in relation to any of the assumptions (excluding any assumption mentioned in paragraph 28.7) by reference to which the Price Control Conditions were determined.

28.19 The provisions of Part E below are also relevant to the Authority's use of its power of determination under this Part D.

Part E: Other provisions relating to the power of determination

- 28.20 In determining a relevant adjustment under Part D the Authority may confirm, reject, or vary the proposed relevant adjustment.
- 28.21 Without limiting the general effect of paragraph 28.19, a determination by the Authority of a relevant adjustment may include such adjustments as it thinks fit in respect of costs likely to be incurred by the licensee in any subsequent Relevant Year within the relevant cost category to which the relevant adjustment relates.

Part F: Licensee’s right to make the relevant adjustment

- 28.22 If the Authority has not determined a relevant adjustment proposed in a Notice given to the Authority by a licensee under Part A within four months of the close of the appropriate application window, and that Notice has not been withdrawn, the licensee may give Notice to the Authority that the relevant adjustment will take effect from the adjustment date for all relevant purposes under the Special Conditions.

Part G: Treatment of an adjustment or a relevant adjustment

- 28.23 The amount of the term IAET for the purposes of deriving the input variable for the Annual Iteration Process is the total amount of any relevant adjustment (or adjustments) in respect of any Relevant Year t, whether determined by the Authority under Part D or made by the licensee under Part F of this condition.

Part H: Interpretation

- 28.24 For the purposes of this condition, the following definitions apply:

| | |
|----------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Efficiency Incentive Rate | means the incentive rate for the licensee, and set out in Appendix 1 to this condition. |
| Enhanced Physical Site Security Costs | means Relevant Costs incurred by the licensee for the purposes of implementing any formal recommendation or requirement of the Secretary of State to enhance the physical security of any of the sites within the licensee’s Transmission Network. |
| Work Force Renewal Costs | means efficient costs incurred, or expected to be incurred, by the licensee in recruitment and training to ensure a sustainable workforce that are not included in allowed totex or recoverable through another price control mechanism. |
| Relevant Costs | has the meaning given to that term at paragraph 28.7 of this condition. |

- 28.25 Expressions defined in paragraph 28.23 are to be read and given effect subject to any further explanation or elaboration set out in the relevant

Regulatory Instructions and Guidance issued by the Authority under [ETC74] (Regulatory Instructions and Guidance).

APPENDIX 1: EFFICIENCY INCENTIVE RATES

(see paragraph 28.8 of this condition)

| Electricity Licensee | Incentive rate |
|-----------------------------|-----------------------|
| Electricity/ T Licensee 1 | XX per cent |
| Electricity T Licensee 2 | XX per cent |
| Electricity T Licensee 3 | XX per cent |

APPENDIX 2: AVERAGE ANNUAL FORECAST REVENUE OVER THE PRICE CONTROL PERIOD

(see paragraph 28.8 of this condition)

| Electricity Licensee | £m (2009/10 prices) |
|-----------------------------|----------------------------|
| Electricity/ Licensee 1 | AA.A |
| Electricity T Licensee 2 | BB.B |
| Electricity T Licensee 3 | CC.C |

[ETC 117] Special Condition [x]. Arrangements for the recovery of SO uncertain costs

[To note generic introduction paragraphs relating to the interaction with the financial model to be reviewed in order to ensure consistency with other conditions that result in a change to MOD]

Introduction

- 117.1 The purpose of this condition is to allow the licensee or the Authority to propose, and the Authority to determine, such adjustments (“relevant adjustments”) as are necessary to enable the licensee to recover the categories of costs set out in paragraph 117.4 (each “a relevant cost category”) insofar as they are efficiently incurred.
- 117.2 The SOIAE term derived in accordance with this condition will be a revised PCFM Variable Value for the Annual Iteration Process for the T1 Price Control Financial Model as described in [ETC 26] Special Condition [x] (Annual Iteration Process for the T1 Price Control Financial Model). 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 [x] of [ETC12] Special Condition [x] (Restriction on System Operator Internal Costs) will result in an adjustment of the licensee’s Base System Operator Network Activity Revenue (whether upwards or downwards) in a manner that is consistent with the policy outlined in the T1 Price Control Financial Methodologies contained within the T1 Price Control Financial Handbook.
- 117.3 The SOIAE term derived in accordance with this condition will also constitute an element of [Total Allowed Totex] for the purposes of deriving the [efficiency incentive performance] as set out in Part E of [ETC 66] Special Condition [x] (Determination of PCFM Variable Values for Totex Incentive Mechanism adjustments – System Operator). Total Allowed Totex is calculated in accordance with the methodology set out in Chapter [x] of the T1 Price Control Financial Methodologies contained within the ET1 Price Control Financial Handbook.
- 117.4 The relevant cost categories referred to in paragraph 117.1 are:
- (a) Enhanced Security Costs
- 117.5 The licensee or the Authority may propose relevant adjustments in respect of a relevant cost category only during certain periods (“application windows”) that are specified in Part B below.

Part A: Licensee’s or Authority’s ability to propose a relevant adjustment

- 117.7 The licensee may by Notice to the Authority, and the Authority may by Notice to the licensee, propose, in accordance with Parts B and C below, a relevant adjustment to the PCFM Variable Value in relation to any relevant cost category where the costs within that category:

- (a) are Relevant Costs within the meaning of paragraph 117.8; and
- (b) constitute a material amount within the meaning of paragraph 117.9.

117.8 The Relevant Costs in respect of a relevant cost category are any new or additional costs (net of any cost savings that are fortuitous or otherwise not attributable to prudent management action) that were not allowed for in the costs included for that category when the Authority determined the Special Conditions.

117.9 A material amount in respect of any relevant cost category is the amount of Relevant Costs within a single relevant cost category, when multiplied by the licensee's Efficiency Incentive Rate that exceeds or is likely to exceed 1 per of the licensee's SO Average Annual Forecast Revenue over the Price Control Period beginning on 1 April 2013 as set out in Appendix 2.

117.10 A relevant adjustment is one:

- (a) which the licensee or the Authority believes would have the effect of enabling the licensee to recover Relevant Costs which would not otherwise be recoverable under the Special Conditions; and
- (b) which applies only in respect of Relevant Costs that the licensee has incurred, or is likely to incur, on and after 1 April 2013.

Part B: Application windows for relevant adjustment proposals

117.11 There are two application windows during which a relevant adjustment may be proposed by Notice served under Part A above:

- (a) the first application window opens on 1 May 2015 and closes on 31 May 2015; and
- (b) the second application window opens on 1 May 2018 and closes on 31 May 2018.

117.12 A relevant adjustment relating to any relevant cost category may be proposed during both the first application window and the second application window provided that in each case the proposal complies with the provisions of paragraphs 117.8 and 117.9.

117.14 Any relevant adjustment proposed outside the appropriate application window as set out in paragraph 117.11 will not be determined by the Authority under the process that is provided for in this condition.

Part C: Other provisions relating to relevant adjustment proposals

117.15 A Notice served under Part A must in all cases:

- (a) state the obligations or requirements to which the Notice relates;

- (b) set out the basis on which the relevant adjustment in respect of each relevant cost category to which the Notice relates has been calculated; and
- (c) state the date from which it is proposed that the relevant adjustment will have effect ("the adjustment date").

117.16 The adjustment date must not be a date that is earlier than:

- (a) 1 April 2016 in the case of a relevant adjustment proposed during the first application window; or
- (b) 1 April 2019 in the case of a relevant adjustment proposed during the second application window.

117.17 Every relevant adjustment proposed in a Notice served under Part A above must be demonstrated to comply with the provisions of paragraphs 117.8 and 117.9 for the purposes of the relevant cost category to which the relevant adjustment relates.

Part D: Authority's power to determine the relevant adjustment

117.18 Where a Notice has been served under Part A above, the Authority may, within four months after the close of the appropriate application window after consulting the licensee, determine the relevant adjustment that is to be made to the input variable in such manner as it considers appropriate, having regard to the purposes of this condition.

117.19 In determining any relevant adjustment under this Part D, the Authority must:

- (a) consult with the licensee;
- (b) have particular regard to the purposes of this condition; and
- (c) take no account of the financial performance of the licensee in relation to any of the assumptions (excluding any assumption mentioned in paragraph 117.8) by reference to which the Price Control Conditions were determined.

117.20 The provisions of Part E below are also relevant to the Authority's use of its power of determination under this Part D.

Part E: Other provisions relating to the power of determination

117.21 In determining a relevant adjustment under Part D the Authority may confirm, reject, or vary the proposed relevant adjustment.

117.22 Without limiting the general effect of paragraph 117.20, a determination by the Authority of a relevant adjustment may include such adjustments as it thinks fit in respect of costs likely to be incurred by the licensee in any subsequent Relevant Year within the relevant cost category to which the relevant adjustment relates.

Part F: Licensee’s right to make the relevant adjustment

117.23 If the Authority has not determined a relevant adjustment proposed in a Notice given to the Authority by a licensee under Part A within four months of the close of the appropriate application window, and that Notice has not been withdrawn, the licensee may give Notice to the Authority that the relevant adjustment proposed in its notice shall take effect from the adjustment date for all relevant purposes under the Special Conditions.

Part H: Treatment of an adjustment or a relevant adjustment

117.24 The amount of the term SOIAEt for the purposes of deriving the input variable for the Annual Iteration Process is the total amount of any relevant adjustment (or adjustments) in respect of any Relevant Year t, whether determined by the Authority under Part D, or made by the licensee under Part F of this condition.

Part I: Interpretation

117.25 For the purposes of this condition, the following definitions apply:

- Efficiency Incentive Rate** means the incentive rate for the licensee, and the rate set out in Appendix 1 to this condition.
- Enhanced Security Costs** means Relevant Costs incurred by the licensee for the purposes of implementing any formal recommendation or requirement of the Secretary of State to enhance the security of any of the IT systems required to operate the licensee’s Transportation System.
- Relevant Costs** has the meaning given to that term at paragraph 117.8 of this condition.

117.26 Expressions defined in paragraph 117.30 are to be read and given effect subject to any further explanation or elaboration set out in the relevant Regulatory Instructions and Guidance issued by the Authority under [ETC74] (Regulatory Instructions and Guidance).

APPENDIX 1: EFFICIENCY INCENTIVE RATES

(see paragraph 117.9 of this condition)

| Gas Licensee | Incentive rate |
|---------------------|-----------------------|
| T Licensee 1 | XX per cent |

APPENDIX 2: AVERAGE ANNUAL FORECAST REVENUE OVER THE PRICE CONTROL PERIOD

(see paragraph 117.9 of this condition)

| Gas Licensee | £m (2009/10 prices) |
|---------------------|----------------------------|
| Licensee 1 | AA.A |

[ETC 122] Special Condition [x]. Undergrounding uncertainty mechanism [NGET only]

For inclusion with Second Informal Licence Consultation.

[ETC 123] Special Condition [x]. Demand related infrastructure volume driver [NGET only]

For inclusion with Second Informal Licence Consultation.

[ETC 124] Special Condition [x]. Uncertainty mechanism for preconstruction works related to integrated network solution

For inclusion with Second Informal Licence Consultation

SPECIAL CONDITIONS: FINANCIAL CONDITIONS

**[ETC 64] Speical Condition [x]. Legacy price control adjustments –
Transmission Owner**

Introduction

64.2 The purpose of this condition is to determine:

- (a) any appropriate revisions to aggregate PCFM Variable Values relating to the items specified in Parts B to F of this condition: and
- (b) the Formula Years to which the revised values referred to in subparagraph (a) relate,

for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in Special Condition ETC26 (Annual Iteration Process for the ET1 Price Control Financial Model).

64.3 For the purposes of this condition:

Formula Year t means the Formula Year in which the value for the term MOD calculated through a particular Annual Iteration Process, is used in the formula set out in Part C of Special Condition ETC 20 (Restriction of revenue in respect of the Distribution Network Transportation Activity) and references to Relevant Year t-1 are to be construed accordingly.

PCFM Variable Value means a value contained in the PCFM Variable Values Table for the licensee, contained in the ET1 Price Control Financial Model:

- (a) which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and
- (b) whose revision does not constitute a modification of the ET1 Price Control Financial Model for the purposes of Special Condition ETC 57 (Governance of ET1 Price Control Financial Instruments).

64.4 The application of the mechanisms set out in this condition means that as a consequence of the Annual Iteration Process, the value of the term MOD as calculated for Formula Year t for the purposes of Special Condition ETC20 (Restriction of Transmission Network Revenue) will result in an appropriate adjustment of the licensee's base revenue (whether upwards or downwards) in a manner that appropriately reflects:

- (a) activities carried out by the licensee;
- (b) incentivised performance by the licensee; and/or
- (c) costs or expenditure incurred by the licensee,

in the period prior to Formula Year 2013/14, in relation to one or more of the schemes and mechanisms referred to in Parts B to F of this condition.

- 64.5 Requisite adjustments to the licensee's allowed revenue and Regulatory Asset Value (RAV) balance will be determined under the methodologies set out in chapter 8 of the ET1 Price Control Financial Handbook and aggregated in accordance with Part A of this condition.
- 64.6 This condition should be read and construed in conjunction with, Special Condition ETC26 (Annual Iteration Process for the ET1 Price Control Model), and Special Condition ETC57 (Governance of ET1 Price Control Financial Instruments).

Part A: Determination and direction of revised PCFM Variable Values for legacy price control adjustments

- 64.7 This Part provides for the determination and direction of revised PCFM Variable Values for:
- (a) Legacy price control adjustments to the licensees Allowed Revenue (LAR values); and
 - (b) Legacy price control adjustments to the licensee's RAV balance (LRAV values).
- 64.8 The LAR and LRAV values for all Formula Years are zero as at 1 April 2013.
- 64.9 The LAR value for any Formula Year from 2013/14 onwards is derived in accordance with the following formula:

$$\text{LAR} = \text{PAR} + \text{TAR} + \text{CAR} + \text{IAR} + \text{SAR}$$

where

PAR means the total adjustment to the licensee's allowed revenue in respect of the pension true-up from the previous price control determined in accordance with Part B of this condition;

TAR means the total adjustment to the licensee's allowed revenue in respect of the tax clawback from the previous price control determined in accordance with Part C of this condition;

CAR means the total adjustment to the licensee's allowed revenue in respect of the TPCR4 TO Capex Incentive Scheme determined in accordance with Part D of this condition;

IAR means the total adjustment to the licensee's allowed revenue in respect of the TPCR4 Transmission Asset Owner Incentives determined in accordance with Part E of this condition,

SAR means the total adjustment to the licensee's allowed revenue in respect of TPCR4 logged-up and security costs determined in accordance with Part F of this condition;

in each case, for the same Formula Year.

64.10 The LRAV value for any Formula Year from 2013/14 onwards is derived in accordance with the following formula:

$$\text{LRAV} = \text{PRAV} + \text{TRAV} + \text{CRAV} + \text{IRAV} + \text{SRAV}$$

where

PRAV means the total adjustment to the licensee's RAV in respect of the pension true-up from the previous price control determined in accordance with Part B of this condition;

TRAV means the total adjustment to the licensee's RAV in respect of the tax clawback from the previous price control determined in accordance with Part C of this condition;

CRAV means the total adjustment to the licensee's RAV in respect of the TPCR4 TO Capex Incentive Scheme determined in accordance with Part D of this condition;

IRAV means the total adjustment to the licensee's RAV in respect of the TPCR4 Transmission Asset Owner Incentives determined in accordance with Part E of this condition;

SRAV means the total adjustment to the licensee's RAV in respect of logged-up and security costs determined in accordance with Part F of this condition;

in each case, for the same Formula Year.

64.11 Subject to paragraph 64.12, the Authority shall, by 30 November in each Formula Year t-1, determine whether any LAR values or LRAV values should be revised to reflect calculations under paragraphs 64.9 and 64.10 respectively.

64.12 The first formula year in which the Authority will make a determination pursuant to paragraph 64.11 is Formula Year 2013/14.

64.13 If the Authority determines under paragraph 64.11 that any LAR or LRAV values are to be revised, it shall by 30 November in the same Formula Year t-1 issue a direction in accordance with the provisions of Part G of this condition specifying the revised LAR and LRAV values that have been determined and the Formula Years to which they relate.

64.14 Where the Authority directs any revised LAR values or LRAV values for Formula Years earlier than Formula 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 carrying value adjustment, be reflected in the calculation of the term MOD for Formula Year t and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term MOD.

Part B: Determination of adjustments for pension true-ups

64.15 This Part provides for the determination of the adjustment to the licensee's:

- (a) allowed revenue; and
- (b) RAV,

in respect of the pension true-up from the previous price control.

64.16 The Authority shall, by 30 November in each Formula Year t-1, determine the value of the term PAR for each Formula Year in the price control period, being the total adjustment, if any, to the licensee's allowed revenue in respect of the pension true-up. The Authority's determination shall be made in accordance with the methodology contained in section 1 of chapter 16 of the ET1 Price Control Financial Handbook.

64.17 The Authority shall, by 30 November in each Formula Year t-1, determine the value of the term PRAV for each Formula Year in the price control period, being the total adjustment, if any, to the licensee's RAV balance in respect of the the pension true-up. The Authority's determination shall be made in accordance with the methodology contained in section 1 of chapter 16 of the ET1 Price Control Financial Handbook.

64.18 The Authority shall include a statement of the values of the terms PAR and PRAV in any direction given under Part G of this condition.

Part C: Determination of adjustments for tax clawback

64.19 This Part provides for the determination of the adjustment to the licensee's:

- (a) allowed revenue; and
- (b) RAV,

in respect of the tax clawback from the previous price control.

64.20 The Authority shall, by 30 November in each Formula Year t-1, determine the value of the term TAR for each Formula Year in the price control period, being the total adjustment, if any, to the licensee's allowed revenue in respect of the tax clawback. The Authority's determination shall be made in accordance with the methodology contained in section 2 of chapter 16 of the ET1 Price Control Financial Handbook.

64.21 The Authority shall, by 30 November in each Formula Year t-1, determine the value of the term TRAV for each Formula Year in the price control period, being the total adjustment, if any, to the licensee's RAV balance in respect of the tax clawback. The Authority's determination shall be made in accordance with the methodology contained in section 2 of chapter 16 of the ET1 Price Control Financial Handbook.

64.22 The Authority shall include a statement of the values of the terms TAR and TRAV in any direction given under Part G of this condition.

Part D: Determination of adjustments for the close-out of the TPCR4 TO Capex Incentive Scheme

64.23 This Part provides for the determination of the adjustment to the licensee's:

- (a) allowed revenue; and
- (b) RAV,

in respect of the close-out of the TO Capital Expenditure Incentive Scheme which applied to the licensee during the previous charge restriction period (1 April 2007 to 31 March 2013).

64.24 The Authority shall, by 30 November in each Formula Year t-1, determine the value of the term CAR for each Formula Year in the price control period, being the total adjustment, if any, to the licensee's allowed revenue in respect of the close-out of the TO Capex Incentive Scheme which applied to the licensee during the previous charge restriction period (1 April 2007 to 31 March 2013). The Authority's determination shall be made in accordance with the methodology contained in section 3 of chapter 16 of the ET1 Price Control Financial Handbook.

64.25 The Authority shall, by 30 November in each Formula Year t-1, determine the value of the term CRAV for each Formula Year in the price control period, being the total adjustment, if any, to the licensee's RAV balance in respect of the close-out of the TO Capex Incentive Scheme which applied to the licensee during the previous charge restriction period (1 April 2007 to 31 March 2013). The Authority's determination shall be made in accordance with the methodology contained in section 3 of chapter 16 of the ET1 Price Control Financial Handbook.

64.26 The Authority shall include a statement of the values of the terms CAR and CRAV in any direction given under Part G of this condition.

Part E: Determination of adjustments for the close-out of the Transmission Asset Owner Incentives scheme

64.27 This Part provides for the determination of the adjustment to the licensee's:

- (a) allowed revenue; and
- (b) RAV,

in respect of the close-out of Transmission Asset Owner Incentives for transmission incentives projects capex not in RAV at 31 March 2010.

64.28 The Authority shall, by 30 November in each Formula Year t-1, determine the value of the term IAR for each Formula Year in the price control period, being the total adjustment, if any, to the licensee's allowed revenue in respect of the close-out of TII. The Authority's determination shall be made in accordance with the methodology contained in section 4 of chapter 17 of the ET1 Price Control Financial Handbook.

64.29 The Authority shall, by 30 November in each Formula Year t-1, determine the value of the term IRAV for each Formula Year in the price control period, being the total adjustment, if any, to the licensee's RAV balance in respect of the close-out of TII. The Authority's determination shall be made in accordance with the methodology contained in section 4 of chapter 17 of the ET1 Price Control Financial Handbook.

64.30 The Authority shall include a statement of the values of the terms IAR and IRAV in any direction given under Part G of this condition.

Part F: Determination of adjustments for the Close-out of logged-up and security costs

64.31 This Part provides for the determination of the adjustment to the licensee's:

- (a) allowed revenue; and
- (b) RAV,

in respect of the close-out of logged-up and security costs.

64.32 The Authority shall, by 30 November in each Formula Year t-1, determine the value of the term SAR for each Formula Year in the price control period, being the total adjustment, if any, to the licensee's allowed revenue in respect of the close-out of logged-up and security costs. The Authority's determination shall be made in accordance with the methodology contained in section 5 of chapter 16 of the ET1 Price Control Financial Handbook.

64.33 The Authority shall, by 30 November in each Formula Year t-1, determine the value of the term SRAV for each Formula Year in the price control period, being the total adjustment, if any, to the licensee's RAV balance in respect of the close-out of logged-up and security costs. The Authority's

determination shall be made in accordance with the methodology contained in section 5 of chapter 16 of the ET1 Price Control Financial Handbook.

64.34 The Authority shall include a statement of the values of the terms SAR and SRAV in any direction given under Part G of this condition.

Part G: Procedure to be followed for direction of revised PCFM Variable Values relating to legacy price control adjustments by the Authority

64.35 Subject to paragraph 64.12, revised LAR and LRAV values determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November in each Formula Year t-1.

64.36 Before issuing any directions under paragraph 64.35, the Authority will give Notice to the licensee of all of the values that it proposes to direct.

64.37 The Notice referred to in paragraph 64.36 must:

- (a) state that any revised LAR and LRAV values have been determined in accordance with Part A 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 or objections concerning the determination of any revised LAR or LRAV values.

64.38 The Authority shall have due regard to any representations or objections duly received under paragraph 64.36, and give reasons for its decisions in relation to them.

64.39 If, for any reason in any Formula Year t-1, the Authority does not make a direction in relation to revised LAR and LRAV values by 30 November, the Authority shall direct the values concerned as soon as is practicable, consistent with the purpose of paragraph 26.11 of Special Condition 26 (Annual Iteration Process for the ET1 Price Control Financial Model) and, in any case, before directing a value for MODt under that paragraph.

Part H: Interpretation

64.40 For the purposes of this condition, the following definitions apply:

| | |
|--------------------------------------------------|----------------------------------------------------|
| Annual Iteration Process | has the meaning given in Special Condition ETC 26. |
| ET1 Price Control Financial Handbook | has the meaning given in Special Condition ETC 57. |
| ET1 Price Control Financial Methodologies | has the meaning given in Special Condition ETC 57. |
| ET1 Price Control | has the meaning given in Special Condition ETC |

64.41 Expressions used in paragraphs 64.3 and 64.40 are to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Methodologies that may be applicable to them.

[ETC67] Special Condition [x]. Legacy price control adjustments – System Operator

Introduction

67.2 The purpose of this condition is to determine:

- (a) any appropriate revisions to aggregate PCFM Variable Values relating to the items specified in Parts B to D of this condition: and
- (b) the Relevant Years to which the revised values referred to in subparagraph (a) relate,

for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in [ETC 26] Special Condition ETC26 (Annual Iteration Process for the ET1 Price Control Financial Model).

67.3 For the purposes of this condition:

Relevant Year t means the Relevant Year in which the value for the term MOD calculated through a particular Annual Iteration Process, is used in the formula set out in Part x of [ETC12] Special Condition [x] (Restriction on System Operator Internal Costs) and references to Relevant Year-1 are to be construed accordingly.

PCFM Variable Value means a value contained in the PCFM Variable Values Table for the licensee, contained in the ET1 Price Control Financial Model:

- (a) which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and
- (b) whose revision does not constitute a modification of the ET1 Price Control Financial Model for the purposes of Price Control Condition [ETC57] (Governance of ET1 Price Control Financial Instruments).

67.4 The application of the mechanisms set out in this condition means 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 [ETC 12] Special Condition [x] (Restriction on System Operator Internal Costs) will result in an appropriate adjustment of the licensee's base revenue (whether upwards or downwards) in a manner that appropriately reflects:

- (a) activities carried out by the licensee;

- (b) incentivised performance by the licensee; and/or
- (c) costs or expenditure incurred by the licensee,

in the period prior to Relevant Year 2013/14, in relation to one or more of the schemes and mechanisms referred to in Parts B to D of this condition.

67.5 Requisite adjustments to the licensee's allowed revenue and Regulatory Asset Value (RAV) balance will be determined under the methodologies set out in chapter 8 of the ET1 Price Control Financial Handbook and aggregated in accordance with Part A of this condition.

64.6 This condition should be read and construed in conjunction with, [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Model), and [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

Part A: Determination and direction of revised PCFM Variable Values for legacy price control adjustments

67.7 This Part provides for the determination and direction of revised PCFM Variable Values for:

- (a) legacy price control adjustments to the licensees allowed revenue (LAR values); and
- (b) legacy price control adjustments to the licensee's RAV balance (LRAV values).

67.8 The LAR and LRAV values for all Relevant Years are zero as at 1 April 2013.

67.9 The LAR value for any Relevant Year from 2013/14 onwards is calculated in accordance with the following formula:

$$\text{LAR} = \text{PAR} + \text{TAR} + \text{CAR}$$

where

PAR means the total adjustment to the licensee's allowed revenue in respect of the pension true-up from the previous price control determined in accordance with Part B of this condition;

TAR means the total adjustment to the licensee's allowed revenue in respect of the tax clawback from the previous price control determined in accordance with Part C of this condition;

CAR means the total adjustment to the licensee's allowed revenue in respect of the SO Capex Incentive Scheme which applied to the licensee during the previous charge restriction period (1 April 2012

to 31 March 2013) determined in accordance with Part D of this condition;

in each case, for the same Relevant Year.

67.10 The LRAV value for any Relevant Year from 2013/14 onwards is calculated in accordance with the following formula:

$$\text{LRAV} = \text{PRAV} + \text{TRAV} + \text{CRAV}$$

where

PRAV means the total adjustment to the licensee's RAV respect of the pension true-up from the previous price control determined in accordance with Part B of this condition;

TRAV means the total adjustment to the licensee's RAV in respect of the tax clawback from the previous price control determined in accordance with Part C of this condition;

CRAV means the total adjustment to the licensee's RAV in respect of SO Capex Incentive Scheme which applied to the licensee during the previous charge restriction period (1 April 2012 to 31 March 2013) determined in accordance with Part D of this condition;

in each case, for the same Relevant Year.

67.11 Subject to paragraph 67.12, the Authority shall, by 30 November in each Relevant Year t-1, determine whether any LAR values or LRAV values should be revised to reflect calculations under paragraphs 67.9 and 67.10 respectively.

67.12 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 64.11 is Relevant Year 2013/14.

67.13 If the Authority determines under paragraph 64.11 that any LAR or LRAV values are to be revised, it shall by 30 November in the same Relevant Year t-1 issue a direction in accordance with the provisions of Part E of this condition specifying the revised LAR and LRAV values that have been determined and the Relevant Years to which they relate.

67.14 Where the Authority directs any revised LAR values or LRAV 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 carrying value adjustment, be reflected in the calculation of the term MOD for Relevant Year t and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term MOD.

Part B: Determination of adjustments for pension true-ups

67.15 This Part provides for the determination of the adjustment to the licensee's:

- (a) allowed revenue; and
- (b) RAV,

in respect of the pension true-up from the previous price control.

67.16 The Authority shall, by 30 November in each Relevant Year t-1, determine the value of the term PAR for each Relevant Year in the price control period, being the total adjustment, if any, to the licensee's allowed revenue in respect of the pension true-up. The Authority's determination shall be made in accordance with the methodology contained in section 1 of chapter 17 of the ET1 Price Control Financial Handbook.

67.17 The Authority shall, by 30 November in each Relevant Year t-1, determine the value of the term PRAV for each Relevant Year in the price control period, being the total adjustment, if any, to the licensee's RAV balance in respect of the the pension true-up. The Authority's determination shall be made in accordance with the methodology contained in section 1 of chapter 17 of the ET1 Price Control Financial Handbook.

67.18 The Authority shall include a statement of the values of the terms PAR and PRAV in any direction given under Part E of this condition.

Part C: Determination of adjustments for tax clawbacks

67.19 This Part provides for the determination of the adjustment to the licensee's:

- (a) allowed revenue; and
- (b) RAV [may not impact],

in respect of the tax clawback from the previous price control.

67.20 The Authority shall, by 30 November in each Relevant Year t-1, determine the value of the term TAR for each Relevant Year in the price control period, being the total adjustment, if any, to the licensee's allowed revenue in respect of the tax clawback. The Authority's determination shall be made in accordance with the methodology contained in section 2 of chapter 17 of the ET1 Price Control Financial Handbook.

67.21 The Authority shall, by 30 November in each Relevant Year t-1, determine the value of the term TRAV for each Relevant Year in the price control period, being the total adjustment, if any, to the licensee's RAV balance in respect of the tax clawback. The Authority's determination shall be made in accordance with the methodology contained in section 2 of chapter 17 of the ET1 Price Control Financial Handbook.

67.22 The Authority shall include a statement of the values of the terms TAR and TRAV in any direction given under Part E of this condition.

Part D: Determination of adjustments for the close-out of the SO Capex Incentive Scheme

67.23 This Part provides for the determination of the adjustment to the licensee's:

- (a) allowed revenue; and
- (b) RAV,

in respect of the close-out of the SO Capex Incentive Scheme which applied to the licensee during the TPCR4 Rollover charge restriction period (1 April 2012 to 31 March 2013).

67.24 The Authority shall, by 30 November in each Relevant Year t-1, determine the value of the term CAR for each Relevant Year in the price control period, being the total adjustment, if any, to the licensee's allowed revenue in respect of the close-out of the SO Capex Incentive Scheme which applied to the licensee during the TPCR4 Rollover charge restriction period (1 April 2012 to 31 March 2013). The Authority's determination shall be made in accordance with the methodology contained in section 3 of chapter 17 of the ET1 Price Control Financial Handbook.

67.25 The Authority shall, by 30 November in each Relevant Year t-1, determine the value of the term CRAV for each Relevant Year in the price control period, being the total adjustment, if any, to the licensee's RAV balance in respect of the close-out of the SO Capex Incentive Scheme which applied to the licensee during the TPCR4 Rollover charge restriction period (1 April 2012 to 31 March 2013). The Authority's determination shall be made in accordance with the methodology contained in section 3 of chapter 17 of the ET1 Price Control Financial Handbook.

67.26 The Authority shall include a statement of the values of the terms CAR and CRAV in any direction given under Part E of this condition.

Part E: Procedure to be followed for direction of revised PCFM Variable Values relating to legacy price control adjustments by the Authority

67.27 Subject to paragraph 67.12, revised LAR and LRAV values determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November in each Relevant Year t-1.

67.28 Before issuing any directions under paragraph 67.27, the Authority will give Notice to the licensee of all of the values that it proposes to direct.

67.29 The Notice referred to in paragraph 67.28 must:

- (a) state that any revised LAR and LRAV values have been determined in accordance with Part A 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 or objections concerning the determination of any revised LAR or LRAV values.

67.30 The Authority shall have due regard to any representations or objections duly received under paragraph 67.28, and give reasons for its decisions in relation to them.

67.31 If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised LAR and LRAV values by 30 November, the Authority shall direct the values concerned as soon as is practicable, consistent with the purpose of paragraph 26.11 of [ETC26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model) and, in any case, before directing a value for MODt under that paragraph.

Part F: Interpretation

67.32 For the purposes of this condition, the following definitions apply:

| | |
|--------------------------------------------------|------------------------------------------------------|
| Annual Iteration Process | has the meaning given in Special Condition [ETC 26]. |
| ET1 Price Control Financial Handbook | has the meaning given in Special Condition [ETC57]. |
| ET1 Price Control Financial Methodologies | has the meaning given in Special Condition [ETC57]. |
| ET1 Price Control Financial Model | has the meaning given in Special Condition [ETC57]. |

67.33 Expressions used in paragraphs 67.3 and 67.32 are to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Methodologies that may be applicable to them.

[ETC47] Special Condition [x]. Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – Transmission Owner

[The "TO" designation will only be relevant to NGET – but may be preferable to leave in other licences for consistency?]

Introduction

47.2 The purposes of this condition are

- (a) to establish the basis for determining PCFM Variable values for the licensee's TO Totex Incentive Mechanism that are to be used for the purposes of the Annual Iteration Process for the ET1 Price Control Financial Model in accordance with [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model); and
- (b) to establish the basis for determining the value of the licensee's TO Total Allowed Totex (in 2009-10 prices) in relation to Relevant Years.

47.3 For the purposes of this condition:

| | |
|-------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Relevant Year t | means the Relevant Year in which the value for the term TOMOD calculated through a particular Annual Iteration Process, is used in the formula set out in [ETC 20] Special Condition [x] (Restriction of Transmission Network Revenue) and references to Relevant Year t-1 are to be construed accordingly. |
| TO PCFM Variable Value | means a value contained in the TO PCFM Variable Values Table for the licensee, contained in the ET1 Price Control Financial Model: <ul style="list-style-type: none">(a) which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and(b) whose revision does not constitute a modification of the ET1 Price Control Financial Model for the purposes of [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments). |

47.4 The application of the mechanisms set out in this condition ensures that, as a consequence of the Annual Iteration Process:

- (a) the value of the term MOD(TO) as calculated for Relevant Year t for the purposes of [ETC 20] Special Condition [x] (Restriction on Transmission Network Revenue) will result in an adjustment of the licensee's base transmission revenue (whether upwards or downwards); and

[SP suggest that para above should refer to ensuring the PCFM Variable Value is correct rather than that MOD will be correct]

- (b) an appropriate adjustment will be made to the licensee's Regulatory Asset Value (RAV) balance,

in a manner that is consistent with the methodology set out in Chapter 6 of the ET1 Price Control Financial Handbook.

47.5 This condition should be read and construed in conjunction with, [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Model), and [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

Part A: TO Totex Incentive Mechanism applicable to the licensee

47.6 The licensee's TO Totex Incentive Mechanism adjusts base transmission revenue for any overspend or under-spend of TO Totex in relation to transmission network services during any Relevant Year, which the licensee will either bear as a cost to itself or retain in accordance with the methodology set out in Chapter 6 of the ET1 Price Control Financial Handbook reflecting the incentive strength (set down against the licensee's name in the table at Appendix 1 to this condition).

47.7 The amount of overspend or under-spend referred to in paragraph 47.6 is the difference between the licensee's TO Totex for the Relevant Year concerned determined in accordance with Part B of this condition and the licensee's Total Allowed TO Totex for that same Relevant Year, determined in accordance with Part D of this condition.

47.8 The value of the term TOMOD for Relevant Year t and the adjustment to the licensee's RAV balance referred to in paragraph 47.4 will be in accordance with the Totex capitalisation rate applicable to the licensee which is (set down against the licensee's name in the table at Appendix 1 to this condition).

Part B: Process for determining Annual Iteration Process PCFM Variable Value values for the TO Totex Incentive Mechanism

47.9 This Part provides for the determination and direction of revised PCFM Variable Values for: [Note not all value are relevant to all licensees]

- (a) actual load related capex expenditure (TO ALC values);
- (b) actual asset replacement capex expenditure (TP ARC values);
- (c) actual other capex expenditure (TO AOC values);
- (d) actual controllable opex (TO ACO values);

- (e) actual replacement expenditure (TO ARE values);
- (f) actual non-operational capex (TO ANC values); and
- (g) actual contributions (TO ACC values)

Which together are summed together to comprise the TO Totex with actual contributions being a negative value.

47.10 Subject to paragraph 47.11, the Authority shall, by 30 November in each Relevant Year t-1

- (a) determine a revised TO ALC, TO ARC, TO AOC, TO ACO, TO ANC, TO ACCCDE values for Relevant Year t; and
- (b) issue a direction in accordance with the provisions of Part D of this condition specifying the revised values that have been determined and the Relevant Years to which they relate.

in each case in accordance with the methodology contained in chapter 6 of the ET1 Price Control Financial Handbook.

47.11 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 47.10 is Relevant Year 2015/16.

47.12 If the Authority determines under paragraph 47.10 that, in accordance with the methodology contained in chapter 6 of the ET1 Price Control Financial Handbook, that the value of any of the elements of TO Totex (as set out in paragraph 47.9) are to be revised, it shall by 30 November in the same Relevant Year t-1 issue a direction in accordance with the provisions of Part D of this condition specifying the revised values that have been determined and the Relevant Years to which they relate.

47.13 Where the Authority directs any revised values for elements of TO Totex (as set out in paragraph 47.9) 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 carrying value adjustment, be reflected in the calculation of the term TOMOD for Relevant Year t and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term TOMOD.

Part D: Procedure to be followed for direction of revised TO PCFM Variable Values relating to TO Totex Incentive Mechanism by the Authority

47.14 Subject to paragraphs 47.11 revised TO Totex values (as set out in paragraph 47.9) determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November in each Relevant Year t-1.

47.15 Before issuing any directions under paragraph 47.14 the Authority will give notice to the licensee of all of the revised values that it proposes to direct.

47.16 The notice referred to in paragraph 47.15 must:

Methodologies

Condition [ETC 57].

ET1 Price Control Financial Model

has the meaning given in Special Condition [ETC 57].

47.21 Expressions used in paragraphs 47.3 and 47.20 are to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Methodologies that may be applicable to them.

APPENDIX 1: sharing percentages**(see Part B of this condition)**

| Licensee | Incentive Strength | Capitalisation rate |
|--------------------------------------------|---------------------------|----------------------------|
| National Grid Electricity Transmission plc | 48% | 85% |
| SP Transmission Ltd | 50% | 90% |
| Scottish Hydro Electric Transmission Ltd | 50% | 90% |

[ETC66] Special Condition [x]. Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – System Operator

Introduction

66.2 The purposes of this condition are:

- (a) to establish the basis for determining PCFM Variable values for the licensee's SO Totex Incentive Mechanism that are to be used for the purposes of the Annual Iteration Process for the ET1 Price Control Financial Model in accordance with [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model); and
- (b) to establish the basis for determining the value of the licensee's SO Total Allowed Totex (in 2009/10 prices) in relation to Relevant Years.

66.3 For the purposes of this condition:

Relevant Year t means the Relevant Year in which the value for the term SOMOD calculated through a particular Annual Iteration Process, is used in the formula set out in [ETC 12] Special Condition [x] (Restriction on System Operator Internal Costs) and references to Relevant Year t-1 are to be construed accordingly.

SO PCFM Variable Value means a value contained in the SO PCFM Variable Values Table for the licensee, contained in the ET1 Price Control Financial Model:

(a) which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and

(b) whose revision does not constitute a modification of the ET1 Price Control Financial Model for the purposes of [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

66.4 The application of the mechanisms set out in this condition ensures that, as a consequence of the Annual Iteration Process:

- (a) the value of the term SOMOD as calculated for Relevant Year t for the purposes of [ETC 12] Special Condition [x] (Restriction on System Operator Internal Costs) will result in an adjustment of the licensee's base transmission revenue (whether upwards or downwards); and

[SP suggest that para above should refer to ensuring the PCFM Variable Value is correct rather than that MOD will be correct]

- (b) an appropriate adjustment will be made to the licensee's Regulatory Asset Value (RAV) balance,

in a manner that is consistent with the methodology set out in Chapter 6 of the ET1 Price Control Financial Handbook.

66.5 This condition should be read and construed in conjunction with, [ETC 26] Special Condition (Annual Iteration Process for the ET1 Price Control Model), and [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

Part A: SO Totex Incentive Mechanism applicable to the licensee

66.6 The licensee's SO Totex Incentive Mechanism adjusts base transmission revenue for any overspend or under-spend of SO Totex in relation to transmission network services during any Relevant Year, which the licensee will either bear as a cost to itself or retain in accordance with the methodology set out in Chapter 6 of the ET1 Price Control Financial Handbook reflecting the incentive strength (set down against the licensee's name in the table at Appendix 1 to this condition).

66.7 The amount of overspend or under-spend referred to in paragraph 66.6 is the difference between the licensee's SO Totex for the Relevant Year concerned determined in accordance with Part B of this condition and the licensee's Total Allowed SO Totex for that same Relevant Year, determined in accordance with Part D of this condition.

66.8 The value of the term SOMOD for Relevant Year t and the adjustment to the licensee's RAV balance referred to in paragraph 66.4 will be in accordance with the Totex capitalisation rate applicable to the licensee which is (set down against the licensee's name in the table at Appendix 1 to this condition).

Part B: Process for determining Annual Iteration Process Price Control Variable values for the SO Totex Incentive Mechanism

66.9 This Part provides for the determination and direction of revised PCFM Variable Values for: [Note not all value are relevant to all licensees]

- (a) actual load related capex expenditure (SO ALC values);
- (b) actual asset replacement capex expenditure (TP ARC values);

- (c) actual other capex expenditure (SO AOC values);
- (d) actual controllable opex (SO ACO values);
- (e) actual replacement expenditure (SO ARE values);
- (f) actual non-operational capex (SO ANC values); and
- (g) actual contributions (SO ACC values)

Which together are summed together to comprise the SO Totex with actual contributions being a negative value.

66.10 Subject to paragraph 66.11, the Authority shall, by 30 November in each Relevant Year t-1

- (a) determine a revised SO ALC, SO ARC, SO AOC, SO ACO, SO ANC, SO ACCCDE values for Relevant Year t; and
- (b) issue a direction in accordance with the provisions of Part D of this condition specifying the revised values that have been determined and the Relevant Years to which they relate.

in each case in accordance with the methodology contained in chapter 6 of the ET1 Price Control Financial Handbook.

66.11 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 66.10 is Relevant Year 2015/16.

66.12 If the Authority determines under paragraph 66.10 that, in accordance with the methodology contained in chapter 6 of the ET1 Price Control Financial Handbook, that the value of any of the elements of SO Totex (as set out in paragraph 66.9) are to be revised, it shall by 30 November in the same Relevant Year t-1 issue a direction in accordance with the provisions of Part D of this condition specifying the revised values that have been determined and the Relevant Years to which they relate.

66.13 Where the Authority directs any revised values for elements of SO Totex (as set out in paragraph 66.9) 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 carrying value adjustment, be reflected in the calculation of the term SOMOD for Relevant Year t and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term SOMOD.

Part C: Procedure to be followed for direction of revised SO PCFM Variable Values relating to SO Totex Incentive Mechanism by the Authority

66.14 Subject to paragraphs 66.11 revised SO Totex values (as set out in paragraph 66.9) determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November in each Relevant Year t-1.

66.15 Before issuing any directions under paragraph 66.14 the Authority will give notice to the licensee of all of the revised values that it proposes to direct.

66.16 The notice referred to in paragraph 66.15 must:

- (a) state that any revised SO totex values (as set out in paragraph 66.9) 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 or objections concerning the determination of any revised SO Totex values.

66.17 The Authority shall have due regard to any representations or objections duly received under paragraph 66.15, and give reasons for its decisions in relation to them.

66.18 If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised SO Totex values values by 30 November, the Authority shall direct the values concerned as soon as is practicable, consistent with the purpose of paragraph 26.11 of Special Condition 26 (Annual Iteration Process for the ET1 Price Control Financial Model) and, in any case, before directing values for TOMOD_t or SOMOD_t under that paragraph.

Part D: Determination of Total Allowed SO Totex

[Will list all PCFM Variable Values defined in the licence through other conditions]

66.19 The determination of the licensee's Total Allowed SO Totex (in 2009/10 prices), referred to in paragraph 66.2 will conform to the formula below:

Total Allowed Totex = xxx + yyy + ...

for Relevant Year t

where:

xxxxx

xxxxxx

Part E: Interpretation

66.20 For the purposes of this condition, the following definitions apply:

Annual Iteration Process has the meaning given in Special Condition [ETC26].

| | |
|--------------------------------------------------|---------------------------------------------------------------------------------|
| Established Deficit | Has the meaning given in chapter 4 of the ET1 Price Control Financial Handbook. |
| ET1 Price Control Financial Handbook | has the meaning given in Special Condition [ETC57]. |
| ET1 Price Control Financial Methodologies | has the meaning given in Special Condition [ETC57]. |
| ET1 Price Control Financial Model | has the meaning given in Special Condition [ETC57]. |

66.21 Expressions used in paragraphs 66.3 and 66.20 are to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Methodologies that may be applicable to them.

APPENDIX 1: SO sharing percentages

(see Part B of this condition)

| Licensee | Incentive Strength | Capitalisation rate |
|--------------------------------------------|---------------------------|----------------------------|
| National Grid Electricity Transmission plc | 48% | 31% |

APPENDIX 2: INITIAL TOTAL ALLOWED SO TOTEX

(£ million, at 2009/10 price levels, for each of Relevant years 2013/14 to 2020/21)

(see Part D of this condition)

| Licensee | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
|--------------------------------------------|----------------|----------------|----------------|----------------|
| National Grid Electricity Transmission plc | | | | |

| Licensee | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|--------------------------------------------|----------------|----------------|----------------|----------------|
| National Grid Electricity Transmission plc | | | | |

**[ETC 27] Special Condition [x]. Specified financial adjustments –
Transmission Owner**

Introduction

27.2 The purpose of this condition is to determine:

- (a) any appropriate revisions to the TO PCFM Variable Values relating to the items specified in Parts A to C of this condition; and
- (b) the Relevant Years to which the revised values referred to in subparagraph (a) relate,

for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model).

27.3 For the purposes of this condition:

Relevant Year t means the Relevant Year in which the value for the term TOMOD calculated through a particular Annual Iteration Process, is used in the formula set out in [ETC 20] Special Condition [x] (Restriction of Transmission Network Revenue) and references to Relevant Year t-1 are to be construed accordingly.

TO PCFM Variable Value means a value contained in the TO PCFM Variable Values Table for the licensee, contained in the ET1 Price Control Financial Model:

- (a) which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and
- (b) whose revision does not constitute a modification of the ET1 Price Control Financial Model for the purposes of [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

27.4 The application of the mechanisms set out in this condition means that as a consequence of the Annual Iteration Process, the value of the term TOMOD as calculated for Relevant Year t for the purpose of [ETC 20] Special Condition [x] (Restriction of Transmission Network Revenue) will result in an appropriate adjustment to the licensee's base transmission

revenue (whether upwards or downwards) in a manner that appropriately reflects the licensee's:

- (a) allowed TO expenditure on pension scheme Established Deficits, pension scheme administration and the Pension Protection Fund levy;
- (b) TO tax liability allowances; and
- (c) allowed TO percentage cost of corporate debt,

determined under the methodologies set out in chapters 4, 5 and 6 of the ET1 Price Control Financial Handbook respectively.

27.5 This condition should be read and construed in conjunction with, [ETC 26] Special Condition ETC26 (Annual Iteration Process for the ET1 Price Control Model), and [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

Part A: Allowed TO expenditure on pension scheme Established Deficits, pension scheme administration and the Pension Protection Fund levy

27.6 This Part provides for the determination and direction of revised PCFM Variable Values for:

- (a) pension scheme Established Deficit allowed TO expenditure (TO EDE values); and
- (b) pension scheme administration and Pension Protection Fund levy allowed TO expenditure (TO APFE values).

27.7 Subject to paragraph 27.8, the Authority shall, by 30 November in each Relevant Year t-1 determine whether any TO EDE values should be revised as a result of:

- (a) a valuation of the Established Deficit associated with a pension scheme sponsored by the licensee;
- (b) a review of the efficiency with which any Established Deficit position has been managed; or
- (c) a review of the level of payments actually made by the licensee to its pension scheme trustees,

in each case in accordance with the methodology contained in chapter 4 of the ET1 Price Control Financial Handbook.

27.8 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 27.7 is Relevant Year 2014/15.

27.9 Subject to paragraph 27.10, the Authority shall, by 30 November in each Relevant Year t-1 determine whether any TO APFE values should be revised as a result of a review of the licensee's reported levels of:

- (a) pension scheme administration costs; and/or

(b) Pension Protection Fund levy costs

in each case, in accordance with the methodology contained in chapter 4 of the ET1 Price Control Financial Handbook.

- 27.10 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 27.9 is Relevant Year 2014/15.
- 27.11 If the Authority determines under paragraph 27.7 or 27.9 that, in accordance with the methodology contained in chapter 4 of the ET1 Price Control Financial Handbook, any TO EDE values or TO APFE values are to be revised, it shall by 30 November in the same Relevant Year t-1 issue a direction in accordance with the provisions of Part D of this condition specifying the revised TO EDE values and TO APFE values that have been determined and the Relevant Years to which they relate.
- 27.12 Where the Authority directs any revised TO EDE values or TO APFE 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 carrying value adjustment, be reflected in the calculation of the term TOMOD for Relevant Year t and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term TOMOD.

Part B: TO tax liability allowances

- 27.13 This Part provides for the determination and direction of revised PCFM Variable Values for:
- (a) TO tax liability allowance adjustments driven by tax trigger event (TO TTE values); and
 - (b) TO tax liability allowance adjustments driven by the licensee's gearing levels and corporate debt interest costs (TO TGIE values).
- 27.14 The TO TTE values and TO TGIE values for all Relevant Years are zero as at 1 April 2013.
- 27.15 Subject to paragraph 27.16, the Authority shall, by 30 November in each Relevant Year t-1 determine whether any TO TTE values should be revised as a result of one or more tax trigger events in accordance with the methodology contained in chapter 5 of the ET1 Price Control Financial Handbook.
- 27.16 The first Relevant Year in which the Authority will make a determination of the type referred to in paragraph 27.15 is Relevant Year 2013/14.
- 27.17 Subject to paragraph 27.18, the Authority shall, by 30 November in each Relevant Year t-1 determine whether any TO TGIE values should be revised as a result of a review of:
- (a) the licensee's actual level of gearing; and

(b) the level of debt interest charges actually incurred by the licensee, in each case in accordance with the methodology contained in chapter 5 of the ET1 Price Control Financial Handbook.

27.18 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 27.17 is Relevant Year 2014/15.

27.19 If the Authority determines under paragraph 27.15 or 27.17 that, in accordance with the methodologies contained in chapter 5 of the ET1 Price Control Financial Handbook, any TO TTE values or TO TGIE values are to be revised, it shall by 30 November in the same Relevant Year t-1 issue a direction in accordance with the provisions of Part D of this condition specifying the revised TO TTE values and TO TGIE values that have been determined and the Relevant Years to which they relate.

27.20 Where the Authority directs any revised TO TTE values or TO TGIE 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 carrying value adjustment, be reflected in the calculation of the term TOMOD for Relevant Year t and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term TOMOD.

Part C: Allowed TO percentage cost of corporate debt

27.21 This Part provides for the determination and direction of revised PCFM Variable Values for the licensee's allowed TO percentage cost of corporate debt (TO CDE values).

27.22 Subject to paragraph 27.23, the Authority shall by 30 November in each Relevant Year t-1:

- (a) determine a revised TO CDE value for Relevant Year t and each subsequent relevant year in accordance with the methodology contained in chapter 6 of the ET1 Price Control Financial Handbook; and
- (b) issue a direction in accordance with the provisions of Part D of this condition specifying the revised TO CDE values that have been determined and the Relevant Years to which they relate.

27.23 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 27.22 is Relevant Year 2013/14.

27.24 The Authority may also revise the TO CDE value for a Relevant Year earlier than Relevant Year t where necessary to take into account data updates referred to in the methodology contained in chapter 6 of the ET1 Price Control Financial Handbook .

27.25 Where the Authority directs any revised TO CDE 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 carrying value adjustment, be reflected in the calculation of the term TOMOD for Relevant Year t and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term TOMOD.

Part D: Procedure to be followed for direction of revised TO PCFM Variable Values relating to specified financial adjustments by the Authority

27.26 Subject to paragraphs 27.8, 27.10, 27.16, 27.18 and 27.23, revised TO EDE, TO APFE, TO TTE, TO TGIE and TO CDE values determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November in each Relevant Year t-1.

27.27 Before issuing any directions under paragraph 27.26, the Authority will give notice to the licensee of all of the revised values that it proposes to direct.

27.28 The notice referred to in paragraph 27.27 must:

- (a) state that any revised TO EDE and TO APFE values have been determined in accordance with Part A of this condition;
- (b) state that any revised TO TTE and TO TGIE values have been determined in accordance with Part B of this condition;
- (c) state that any revised TO CDE values have been determined in accordance with Part C of this condition; and
- (d) 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 or objections concerning the determination of any revised TO EDE, TO APFE, TO TTE, TO TGIE or TO CDE values.

27.29 The Authority shall have due regard to any representations or objections duly received under paragraph 27.28, and give reasons for its decisions in relation to them.

27.30 If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised TO EDE, TO APFE, TO TTE, TO TGIE and TO CDE values by 30 November, the Authority shall direct the values concerned as soon as is practicable, consistent with the purpose of paragraph 26.11 of [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model) and, in any case, before directing values for TOMOD_t or SOMOD_t under that paragraph.

Part E: Interpretation

27.31 For the purposes of this condition, the following definitions apply:

| | |
|---------------------------------|------------------------------------------------------|
| Annual Iteration Process | has the meaning given in Special Condition [ETC 26]. |
|---------------------------------|------------------------------------------------------|

| | |
|--------------------------------------------------|---------------------------------------------------------------------------------|
| Established Deficit | Has the meaning given in chapter 4 of the ET1 Price Control Financial Handbook. |
| ET1 Price Control Financial Handbook | has the meaning given in Special Condition [ETC 57]. |
| ET1 Price Control Financial Methodologies | has the meaning given in Special Condition [ETC 57]. |
| ET1 Price Control Financial Model | has the meaning given in Special Condition [ETC 57]. |
| Pension Protection Fund | Has the meaning given in chapter 4 of the ET1 Price Control Financial Handbook. |

27.32 Expressions used in paragraphs 27.3 and 27.31 are to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Methodologies that may be applicable to them.

**[ETC 65] Special Condition [x]. Specified financial adjustments –
System Operator**

Introduction

65.2 The purpose of this condition is to determine:

(a) any appropriate revisions to the SO PCFM Variable Values relating to the items specified in Parts A to C of this condition; and

(b) the Relevant Years to which the revised values referred to in subparagraph (a) relate,

for use in the Annual Iteration Process for the ET1 Price Control Financial Model as described in [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model).

65.3 For the purposes of this condition:

Relevant Year t means the Relevant Year in which the value for the term SOMOD calculated through a particular Annual Iteration Process, is used in the formula set out in Price Control Condition [•] and references to relevant year t-1 to be construed accordingly.

SO PCFM Variable Value means a value contained in the SO PCFM Variable Values Table for the licensee, contained in the ET1 Price Control Financial Model:

- (a) which is capable of being revised by a direction of the Authority following a determination under a relevant Special Condition; and
- (b) whose revision does not constitute a modification of the ET1 Price Control Financial Model for the purposes of [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

65.4 The application of the mechanisms set out in this condition means that as a consequence of the Annual Iteration Process, the value of the term SOMOD as calculated for Relevant Year t for the purposes of [ETC 12] Special Condition [x] (Restriction on System Operator Internal Costs) will result in an appropriate adjustment to the licensee's internal costs revenue (whether upwards or downwards) in a manner that appropriately reflects the licensee's:

- (a) allowed SO expenditure on pension scheme Established Deficits, pension scheme administration and the Pension Protection Fund levy;
- (b) SO tax liability allowances; and
- (c) allowed SO percentage cost of corporate debt,

determined under the methodologies set out in chapters 4, 5 and 6 of the ET1 Price Control Financial Handbook respectively.

65.5 This condition should be read and construed in conjunction with, [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Model), and [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

Part A: Allowed SO expenditure on pension scheme Established Deficits, pension scheme administration and the Pension Protection Fund levy

65.6 This Part provides for the determination and direction of revised PCFM Variable Values for:

- (a) pension scheme Established Deficit allowed SO expenditure (SO EDE values); and
- (b) pension scheme administration and Pension Protection Fund levy allowed SO expenditure (SO APFE values).

65.7 Subject to paragraph 65.8, the Authority shall, by 30 November in each Relevant Year t-1 determine whether any SO EDE values should be revised as a result of:

- (a) a valuation of the Established Deficit associated with a pension scheme sponsored by the licensee;
- (b) a review of the efficiency with which any Established Deficit position has been managed; or
- (c) a review of the level of payments actually made by the licensee to its pension scheme trustees,

in each case in accordance with the methodology contained in chapter 4 of the ET1 Price Control Financial Handbook.

65.8 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 65.7 is Relevant Year 2014/15.

65.9 Subject to paragraph 65.10, the Authority shall, by 30 November in each Relevant Year t-1 determine whether any SO APFE values should be revised as a result of a review of the licensee's reported levels of:

- (a) pension scheme administration costs; and/or
- (b) Pension Protection Fund levy costs

in each case, in accordance with the methodology contained in chapter 4 of the ET1 Price Control Financial Handbook.

- 65.10 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 65.9 is Relevant Year 2014/15.
- 65.11 If the Authority determines under paragraph 65.7 or 65.9 that, in accordance with the methodology contained in chapter 4 of the ET1 Price Control Financial Handbook, any SO EDE values or SO APFE values are to be revised, it shall by 30 November in the same Relevant Year t-1 issue a direction in accordance with the provisions of Part D of this condition specifying the revised SO EDE values and SO APFE values that have been determined and the Relevant Years to which they relate.
- 65.12 Where the Authority directs any revised SO EDE values or SO APFE 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 carrying value adjustment, be reflected in the calculation of the term SOMOD for Relevant Year t and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term SOMOD.

Part B: SO tax liability allowances

- 65.13 This Part provides for the determination and direction of revised PCFM Variable Values for:
- (a) SO tax liability allowance adjustments driven by tax trigger events (SO TTE values); and
 - (b) SO tax liability allowance adjustments driven by the licensee's gearing levels and corporate debt interest costs (SO TGIE values).
- 65.14 The SO TTE values and SO TGIE values for all Relevant Years are zero as at 1 April 2013.
- 65.15 Subject to paragraph 65.16, the Authority shall, by 30 November in each Relevant Year t-1 determine whether any SO TTE values should be revised as a result of one or more tax trigger events in accordance with the methodology contained in chapter 5 of the ET1 Price Control Financial Handbook.
- 65.16 The first Relevant Year in which the Authority will make a determination of the type referred to in paragraph 65.15 is Relevant Year 2013/14.
- 65.17 Subject to paragraph 65.18, the Authority shall, by 30 November in each Relevant Year t-1 determine whether any SO TGIE values should be revised as a result of a review of:
- (a) the licensee's actual level of gearing; and
 - (b) the level of debt interest charges actually incurred by the licensee,
- in each case in accordance with the methodology contained in chapter 5 of the ET1 Price Control Financial Handbook.

- 65.18 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 65.17 is Relevant Year 2014/15.
- 65.19 If the Authority determines under paragraph 65.15 or 65.17 that, in accordance with the methodologies contained in chapter 5 of the ET1 Price Control Financial Handbook, any SO TTE values or SO TGIE values are to be revised, it shall by 30 November in the same Relevant Year t-1 issue a direction in accordance with the provisions of Part D of this condition specifying the revised SO TTE values and SO TGIE values that have been determined and the Relevant Years to which they relate.
- 65.20 Where the Authority directs any revised SO TTE values or SO TGIE 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 carrying value adjustment, be reflected in the calculation of the term SOMOD for Relevant Year t and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term SOMOD.

Part C: Allowed SO percentage cost of corporate debt

- 65.21 This Part provides for the determination and direction of revised PCFM Variable Values for the licensee's allowed SO percentage cost of corporate debt (SO CDE values).
- 65.22 Subject to paragraph 65.23, the Authority shall by 30 November in each Relevant Year t-1:
- (a) determine a revised SO CDE value for Relevant Year t and each subsequent Relevant Year in accordance with the methodology contained in chapter 6 of the ET1 Price Control Financial Handbook; and
 - (b) issue a direction in accordance with the provisions of Part D of this condition specifying the revised SO CDE values that have been determined and the Relevant Years to which they relate.
- 65.23 The first Relevant Year in which the Authority will make a determination pursuant to paragraph 65.22 is Relevant Year 2013/14.
- 65.24 The Authority may also revise the SO CDE value for a Relevant Year earlier than Relevant Year t where necessary to take into account data updates referred to in the methodology contained in chapter [•] of the ET1 Price Control Financial Handbook.
- 65.25 Where the Authority directs any revised SO CDE 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 carrying value adjustment, be reflected in the calculation of the term SOMOD for Relevant Year t and, for the avoidance of doubt shall not have any retrospective effect on a previously directed value of the term SOMOD.

Part D: Procedure to be followed for direction of revised SO PCFM Variable Values relating to specified financial adjustments by the Authority

65.26 Subject to paragraphs 65.8, 65.10, 65.16, 65.18 and 65.23, revised SO EDE, SO APFE, SO TTE, SO TGIE and SO CDE values determined by the Authority in accordance with the provisions of this condition will be directed by the Authority by 30 November in each Relevant Year t-1.

65.27 Before issuing any directions under paragraph 65.26, the Authority will give notice to the licensee of all of the revised values that it proposes to direct.

65.28 The notice referred to in paragraph 65.27 must:

- (a) state that any revised SO EDE and SO APFE values have been determined in accordance with Part A of this condition;
- (b) state that any revised SO TTE and SO TGIE values have been determined in accordance with Part B of this condition;
- (c) state that any revised SO CDE values have been determined in accordance with Part C of this condition; and
- (d) 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 or objections concerning the determination of any revised SO EDE, SO APFE, SO TTE, SO TGIE or SO CDE values.

65.29 The Authority shall have due regard to any representations or objections duly received under paragraph 65.28, and give reasons for its decisions in relation to them.

65.30 If, for any reason in any Relevant Year t-1, the Authority does not make a direction in relation to revised SO EDE, SO APFE, SO TTE, SO TGIE and SO CDE values by 30 November, the Authority shall direct the values concerned as soon as is practicable, consistent with the purpose of paragraph 26.11 of [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model) and, in any case, before directing values for TOMODt or SOMODt under that paragraph.

Part E: Interpretation

65.31 For the purposes of this condition, the following definitions apply:

| | |
|---------------------------------------------|---------------------------------------------------------------------------------|
| Annual Iteration Process | has the meaning given in Special Condition [ETC 26]. |
| Established Deficit | Has the meaning given in chapter 4 of the ET1 Price Control Financial Handbook. |
| ET1 Price Control Financial Handbook | has the meaning given in Special Condition [ETC 57]. |

| | |
|----------------------------------------------------------|---------------------------------------------------------------------------------|
| ET1 Price Control Financial Methodologies | has the meaning given in Special Condition [ETC 57]. |
| ET1 Price Control Financial Model | has the meaning given in Special Condition [ETC 57]. |
| Pension Protection Fund | Has the meaning given in chapter 4 of the ET1 Price Control Financial Handbook. |

65.32 Expressions used in paragraphs 65.3 and 65.31 are to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Methodologies that may be applicable to them.

[ETC 26] Special Condition [x]. Annual Iteration Process for the ET1 Price Control Financial Model

Introduction

26.2 For the purposes of this condition:

“Relevant Year t” means the Relevant Year in which the values for the terms TOMOD and SOMOD, determined under a particular Annual Iteration Process, are used in the formulae set out in [ETC 20] Special Condition [x] (Restriction of Transmission Network Revenue) and [ETC 12] Special Condition [x] (Restriction on System Operator Internal Costs) respectively, and references to “Relevant Year t-1” are to be construed accordingly.

TO/SO PCFM Variable Value

means, as applicable, a value contained in the TO or SO Table for the licensee, contained in the ET1 Price Control Financial Model:

- a
- (a) which is capable of being revised by a direction of the Authority following a determination under relevant Special Condition; and
 - (b) whose revision does not constitute a modification of the ET1 Price Control Financial Model for the purposes of [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

26.3 The purpose of this condition is to set out the steps of the Annual Iteration Process that the Authority will carry out in each Relevant Year t-1 in relation to the ET1 Price Control Financial Model in order to determine the values of the terms TOMOD and SOMOD for Relevant Year t, for the purposes of the formulae that are specified in [ETC 20] Special Condition [x] (Restriction of Transmission Network Revenue) and Special Condition [x] (Restriction on System Operator Internal Costs).

26.4 The Annual Iteration Process will consist of, and will be carried out by the Authority in accordance with, the steps set out in Part A below, in a manner that is consistent with the procedures set out in chapter 2 of the ET1 Price Control Financial Handbook.

26.5 The outcome of the Annual Iteration Process with respect to the value of the terms TOMOD and SOMOD will be notified to the licensee in accordance with Part B below.

Part A: Steps comprising the Annual Iteration Process

26.6 The Authority will save a record copy of the ET1 Price Control Financial Model in the form, and with the content it has before any of the steps of the iteration process set out below are commenced.

26.7 Step 1: the Authority will make revisions to TO and SO PCFM Variable Values where and to the extent required in relation to price control adjustments for the licensee under:

[Will re-order once have final RIIO licence numbers]

- (a) [ETC9] Special Condition [x] (The Innovation Roll-out Mechanism);
- (b) [ETC 18] Special Condition [x] (Enhancement to Pre-existing Infrastructure in National Parks and Areas of Outstanding Natural Beauty);
- (c) [ETC27] Special Condition [x] (Specified financial adjustments – Transmission Owner) and/or [ETC65] Special Condition [x] (Specified financial adjustments – System Operator);
- (d) [ETC28] Special Condition [x] (Arrangements for the recovery of uncertain costs) and/or Special Condition [ETC 117] (Arrangements for the recovery of SO uncertain costs);
- (e) [ETC39] Special Condition [x] (Specification of Baseline and Strategic Wider Works Outputs and Assessment of Allowed Expenditure);
- (f) [ETC 41] Special Condition [x] (Network Development Policy and Wider Works Volume Driver; [NGET only]
- (g) [ETC47] Special Condition [x] (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – Transmission Owner) and/or [ETC66] Special Condition [x] (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments – System Operator);
- (h) [ETC 55] Special Condition [x] (Baseline generation connection outputs and generation connections volume driver);
- (i) [ETC62] Special Condition [x]. Pre-construction Engineering deliverable for Strategic Wider Works Outputs
- (j) [ETC64] Special Condition [x] (Legacy price control adjustments – Transmission Owner) and/or [ETC 67] Special Condition [x] (Legacy price control adjustments – System Operator);
- (k) [ETC 122] Special Condition [x] (Undergrounding uncertainty mechanism); [NGET only]
- (l) [ETC 123] Special Condition [x] (Demand related infrastructure volume driver);

(m) [ETC 124] Special Condition [x] (Uncertainty mechanism for preconstruction works related to integrated network solution [NGET only]);

26.8 Step 2: the Authority will cause the ET1 Price Control Financial Model to perform its calculation functions once the revised PCFM Variable Values referred to under Step 1 above have been entered into the TO or, as applicable, SO Variable Values Table for the licensee, where and to the extent required.

26.9 Step 3: the Authority will identify and record the values of the terms TOMOD and SOMOD calculated as a result of Step 2 and shown as outputs of the ET1 Price Control Financial Model. These values will include the effects of any revised PCFM Variable Values which, for the avoidance of doubt, shall not have any retrospective effect on a previously directed value of the terms TOMOD or SOMOD.

Part B: Notification of the values of the TOMOD and SOMOD terms

26.10 The values of the terms TOMOD and SOMOD for Relevant Year t will be directed by the Authority no later than 30 November in each Relevant Year t-1.

26.11 If, for any reason, the Authority does not direct a value for one or both of the terms TOMOD_t or SOMOD_t by 30 November in any Relevant Year t-1, the Authority shall direct the value or values concerned as soon as is practicable thereafter. In the intervening period (between the 30 November in the Relevant Year t-1 concerned and the making of a direction under this paragraph) the value of TOMOD_t and/or SOMOD_t shall be held to be equivalent to the value of TOMOD_{t-1} and/or SOMOD_{t-1}, as applicable.

Part C: Interpretation

26.12 In this condition the following defined terms have the respective meanings given to them below:

| | |
|---------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Annual Iteration Process | means, in relation to the ET1 Price Control Financial Model, the process set out in this condition, which is to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Handbook that may be applicable to it. |
|---------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

| | |
|---------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|
| ET1 Price Control Financial Handbook | means the document of that name that was published by the Authority under reference number [•]/12 on [•] December 2012 that: |
|---------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|

(a) includes specific information and advice about the operation of the Annual Iteration Process and the ET1 Price Control Financial Model; and

(b) contains, in particular, the ET1 Price Control Financial Methodologies, as modified from time to time.

ET1 Price Control Financial Methodologies

means the methodologies that:

(a) are named as such in the ET1 Price Control Financial Handbook; and

(b) together comprise a complete and documented explanation, presented in a coherent and consistent manner, of the methods, principles, and assumptions that the Authority will apply for the purposes of determining the PCFM Variable Values that are to be used in the Annual Iteration Process.

ET1 Price Control Financial Model

means the model of that name (with a Relevant Year suffix) that was first published by the Authority on [•] December 2012:

(a) that is represented by a workbook in Microsoft Excel ® format maintained under that name (with a Relevant Year suffix) on the Authority's website; and

(b) that the Authority will use to determine values for the terms TOMOD and SOMOD through the application of the Annual Iteration Process.

26.13 For the avoidance of doubt, neither:

- (a) an Annual Iteration Process for the ET1 Price Control Financial Model carried out in accordance with this condition, including in particular the steps set out in Part A of this condition; nor
- (b) a change to the Relevant Year included in the name of and text within the ET1 Price Control Financial Model (as referred to as paragraphs 5.22(b) and (c) of [ETC57] (Governance of ET1 Price Control Financial Instruments))

is a modification of the ET1 Price Control Financial Model within the meaning of Part B of [ETC57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

26.14 This condition should be read and construed in conjunction with [ETC 57] Special Condition [x] (Governance of ET1 Price Control Financial Instruments).

[ETC 57] Special Condition [x]. Governance of ET1 Price Control Financial Instruments

Introduction

- 5.2 The purpose of this condition is to establish a robust and transparent change control framework for each of the following ET1 Price Control Financial Instruments:
- (a) the ET1 Price Control Financial Handbook, which contains the ET1 Price Control Financial Methodologies; and
 - (b) the ET1 Price Control Financial Model.
- 5.3 Each of the ET1 Price Control Financial Instruments forms part of this condition and (subject to paragraph 5.4) may only be modified by the Authority in accordance with the provisions of Parts A and B below.
- 5.4 Parts A and B are without prejudice to the powers of the Authority to modify any part of this condition (including any ET1 Price Control Financial Instrument) under sections 11A and 11B of the Act.
- 5.5 For the purposes of this condition, Relevant Year t means the Relevant Year in which the value for the terms TOMOD and SOMOD, calculated through a particular Annual Iteration Process, are used in the formulae set out in [ETC 20] Special Condition [x] (Restriction of Transmission Network Revenue) and [ETC 12] Special Condition [x] (Restriction on System Operator Internal Costs) respectively, and references to Relevant Year t-1 are to be construed accordingly.

Part A: Assessment of the likely impact of an intended modification

- 5.6 Before initiating any modification of an ET1 Price Control Financial Instrument, the Authority must assess whether that modification would be likely to have a significant impact on any of the following persons:
- (a) the licensee;
 - (b) any other electricity transmission licensee in whose licence a condition equivalent to this one has effect;
 - (c) any person engaged in the shipping, transportation, or supply of gas conveyed through pipes or in the generation, transmission, distribution, or supply of electricity; and
 - (d) energy consumers (whether considered individually, or as a whole, or by reference to any class or category of them) in Great Britain.
- 5.7 In making the assessment required by paragraph 5.6, the Authority must:
- (a) have particular regard to any impact which an intended modification would be likely to have on any component of the licensee's allowed

revenues or on any value, rate, time period, or calculation used in the determination of those allowed revenues; and

- (b) in respect of modifications to the ET1 Price Control Financial Model, have regard to any views expressed by the ET1 Price Control Financial Model Working Group.

- 5.8 For the purposes of paragraph 5.6, it is to be presumed (subject to paragraph 5.9) that a modification which serves to correct a manifest error contained in an ET1 Price Control Financial Instrument will not have a significant impact on any of the persons mentioned in that paragraph.
- 5.9 The presumption established by paragraph 5.8 is without prejudice to the licensee's right under paragraph 5.15 to represent to the Authority that a particular modification would in fact be likely to have a significant impact.

Part B: Circumstances in which a modification may (and may not) be made

- 5.10 If, having carried out the required assessment under Part A above, the Authority considers that an intended modification of an ET1 Price Control Financial Instrument would not be likely to have a significant impact on any of the persons mentioned in paragraph 5.6, it may modify that instrument in accordance with paragraphs 5.11 to 5.14 below.
- 5.11 Before making any modification of an ET1 Price Control Financial Instrument under this Part B, the Authority must give the licensee and all electricity transmission licensees in whose licence a condition equivalent to this one has effect a Notice that:
 - (a) sets out the proposed modification and the date from which the Authority proposes that it should have effect;
 - (b) explains why in the Authority's opinion the modification is necessary;
 - (c) sets out the Authority's view that the modification would not be likely to have a significant impact on any of the persons mentioned in paragraph 5.6; and
 - (d) specifies a period of at least 28 days from the date of the Notice within which any representations with respect to the proposal may be made.
- 5.12 The Authority must publish any Notice issued under paragraph 5.11 on its Website and place a copy on the public register file for the licensee.
- 5.13 The Authority must consider any representations that are duly made and not withdrawn before deciding whether to proceed with the modification under this Part B.
- 5.14 Having complied with paragraphs 5.11 to 5.13, the Authority may make the modification in a direction issued for the purposes of this Part B that sets out the modification and specifies the date from which it is to have effect (or the mechanism by which that date is to be determined).

- 5.15 If the licensee [states/demonstrates] in representations made under paragraph 5.11(d) that it reasonably considers that the modification would in fact be likely to have a significant impact of the type referred to in paragraph 5.6 or 5.7(a), the Authority may not make the modification under this Part B.

Part C: Availability and updating of ET1 Price Control Financial Instruments

- 5.16 This Part C has effect in relation to the publication and availability of the ET1 Price Control Financial Handbook including the constituent ET1 Price Control Financial Methodologies and the ET1 Price Control Financial Model.
- 5.17 The Authority must ensure that any modifications of the ET1 Price Control Financial Handbook including the constituent ET1 Price Control Financial Methodologies, whether under Part B of this condition or otherwise, are promptly incorporated into a consolidated version of the ET1 Price Control Financial Handbook maintained on the Authority's Website.
- 5.18 The Authority must ensure that any modifications of the ET1 Price Control Financial Model, whether under Part B of this condition or otherwise, are promptly incorporated into a consolidated version of the ET1 Price Control Financial Model maintained on the Authority's Website.
- 5.19 Without limiting the general effect of paragraph 5.18, the Authority must by not later than 30 November in each Relevant Year t-1:
- (a) publish on its Website, in Microsoft Excel ® format, the version of the ET1 Price Control Financial Model that will be used to determine the value of the terms TOMOD and SOMOD with respect to Relevant Year t for the purposes of [ETC 20] Special Condition [x] (Restriction of Transmission Network Revenue) and [ETC 12] Special Condition [x] (Restriction on System Operator Internal Costs) ;
 - (b) ensure that the electronic name of the file is "ET1 Price Control Financial Model" followed by the Relevant Year t expressed in the format 20XX-XX;
 - (c) ensure that the words "ET1 Price Control Financial Model for the Annual Iteration Process that will take place by 30 November" followed by the Relevant Year t expressed in the format 20XX-XX are included as text within the file itself; and
 - (d) at the same time publish an up-to-date schedule of any modifications that have been made to the ET1 Price Control Financial Model, whether under Part B of this condition or otherwise, up to and including the date of such publication.

Part D: Interpretation

- 5.20 This condition should be read and construed in conjunction with [ETC 26] Special Condition [x] (Annual Iteration Process for the ET1 Price Control Financial Model).

5.21 For the purposes of this condition, the following definitions apply:

- Annual Iteration Process** means, in relation to the ET1 Price Control Financial Model, the process set out in ETC 26] Special Condition [x], which is to be read and given effect subject to any further explanation or elaboration within the ET1 Price Control Financial Handbook that may be applicable to it.
- ET1 Price Control Financial Handbook** means the document of that name that was published by the Authority under reference number [•]/12 on [•] December 2012 that:
- (a) includes specific information and advice about the operation of the Annual Iteration Process and the ET1 Price Control Financial Model; and
 - (b) contains, in particular, the ET1 Price Control Financial Methodologies,
- as modified from time to time, whether under this condition or otherwise.
- ET1 Price Control Financial Methodologies** means the methodologies that:
- (a) are named as such in the ET1 Price Control Financial Handbook; and
 - (b) together comprise a complete and documented explanation, presented in a coherent and consistent manner, of the methods, principles, and assumptions that the Authority will apply for the purposes of determining the PCFM Variable Values that are to be used in the Annual Iteration Process.
- as modified from time to time, whether under this condition or otherwise.
- ET1 Price Control Financial Model** means the model of that name (with a Relevant Year suffix) that was first published by the Authority on [•] December 2012:
- (a) that is represented by a workbook in Microsoft Excel ® format maintained under that name (with a Relevant Year suffix) on the Authority's Website; and
 - (b) that the Authority will use to determine the values of the terms MOD(TO) and MOD(SO) through the application of the

Annual Iteration Process,

as modified from time to time, whether under this condition or otherwise.

**ET1 Price Control
Financial Model
Working Group**

s means the working group identified in and whose terms of reference are set out in Chapter [•] of the ET1 Price Control Financial Handbook.