

NGC SO Incentives 2002 -03

**Modifications to the Transmission Licence
of the National Grid Company plc
which shall take effect on 1/4/02 by virtue
of a direction to modify the licence issued
by the Authority on 26 March 2002**

Special Condition AA4: Licensee's Procurement and Use of Balancing Services

1. The licensee shall operate the licensee's transmission system in an efficient, economic and co-ordinated manner.
2. Having taken into account relevant price and technical differences, the licensee shall not discriminate as between any persons or classes of persons in its procurement or use of balancing services.
3. (a) The licensee shall before the effective time and thereafter at 12 monthly intervals (or such longer period as the Authority may approve) prepare a statement in a form approved by the Authority setting out the kinds of balancing services which it may be interested in purchasing in the period until the next statement is due and the mechanisms by which it would envisage purchasing them.

(b) Where during the term of the statement referred to in sub-paragraph (a) the licensee's intentions change regarding the types of services it wishes to purchase, the licensee shall review the statement and consider whether any revision to the statement is necessary and promptly seek to establish a revised statement in accordance with the terms of paragraph 7 of this special condition.
4. Within one month after the date on which each statement (other than the first one) is due to be published pursuant to paragraph 3, the licensee shall prepare a report in a form approved by the Authority in respect of the balancing services which the licensee has bought or acquired (other than balancing services which the licensee has acquired through the mere acceptance of an offer or bid in the balancing mechanism, provided such offer or bid was not made pursuant to any prior agreement) in the period of 12 months (or such longer period as the Authority may approve) ending on the date referred to above.
5. (a) The licensee shall before the effective time prepare a statement approved by the Authority setting out (consistently with the licensee's duty under paragraph 2 and consistently with its other duties under the Act and the conditions of its transmission licence) the principles and criteria by which the licensee will

determine, at different times and in different circumstances, which balancing services the licensee will use to assist in the operation of the licensee's transmission system (and/or to assist in doing so efficiently and economically), and when the licensee would resort to measures not involving the use of balancing services.

(b) The licensee shall if so directed by the Authority or when any modification should be made to the statement referred to in paragraph 5(a) to more closely reflect the intentions of the licensee but in any event at least once a year, review the statement prepared pursuant to sub-paragraph (a) and promptly seek to establish a revised statement approved by the Authority, such revisions to be made in accordance with the terms of paragraph 7 of this special condition.

(c) The licensee shall as soon as practicable:

(i) after 1 April 2002, in respect of the period beginning at the effective time and ending on 1 April 2002;

(ii) after 30 September 2002, in respect of the period beginning on 1 April 2002 and ending on 30 September 2002; and

(iii) after 30 September 2003 and in each subsequent year, in respect of each period of twelve months commencing on 1 October and ending on 30 September

prepare a report on the manner in which and the extent to which the licensee has, during that period, complied with the statement prepared pursuant to sub-paragraph (a) together with any revision made in accordance with paragraph 7 of this special condition and whether any modification should be made to that statement to more closely reflect the practice of the licensee.

(d) The report prepared pursuant to sub-paragraph (c) shall be accompanied by a statement from the licensee's auditors that they have carried out an investigation the scope and objectives of which shall have been established by the licensee and approved by the Authority, and they shall give their opinion as to the extent

to which the licensee has complied with the statement prepared pursuant to sub-paragraph (a) together with any revision made in accordance with paragraph 7 of this special condition.

6. (a) This paragraph applies where the BSC provides that any imbalance price is to be determined (in whole or in part) by reference to the costs and volumes of relevant balancing services.

(b) Where this paragraph applies the licensee shall:

- (i) before the effective time, establish a balancing services adjustment data methodology approved by the Authority;
- (ii) from time to time thereafter, when the licensee first buys, sells or acquires any relevant balancing services of a kind or under a mechanism which is not covered by the prevailing balancing services adjustment data methodology, promptly seek to establish a revised balancing services adjustment data methodology approved by the Authority which covers that kind of balancing services or mechanisms for buying, selling or acquiring them;
- (iii) prepare a statement of the prevailing balancing services adjustment data methodology as approved by the Authority; and
- (iv) at all times determine and provide (for use under the relevant provisions of the BSC) the costs and volumes of relevant balancing services in compliance with the prevailing balancing services adjustment data methodology, which are to be taken into account in determining imbalance price(s) under the BSC.

(c) The licensee shall when any modification should be made to the statement referred to in sub-paragraph 6 (b) (iii) to more closely reflect the intentions of the licensee review the statement prepared pursuant to sub-paragraph 6 (b)(iii) and promptly seek to establish a revised statement approved by the Authority made in accordance with terms of paragraph 7 of this special condition.

7. (a) Except where the Authority directs otherwise, before revising the statements prepared pursuant to paragraphs 3(a), 5(a) and 6(b)(iii) and each revision thereof the licensee shall:

(i) send a copy of the proposed revisions to the Authority and to any person who asks for one;

(ii) consult BSC Parties on the proposed revisions and allow them a period of not less than 28 days in which to make representations;

(iii) submit to the Authority within seven (7) days of the close of the consultation period referred to in sub-paragraph 7(a) (ii) above a report setting out

- the revisions originally proposed,
- the representations (if any) made to the licensee,
- any changes to the revisions, and

(iv) where the Authority directs that sub-paragraphs (i), (ii) and (iii) or any of them shall not apply, comply with such other requirements as are specified in the direction.

(b) Where sub-paragraph (a) (iv) applies the licensee shall not revise the statements referred to in paragraphs 3(a), 5(a) and 6(b)(iii) and each revision thereof:

(i) before the day (if any) specified in the direction made pursuant to that sub-paragraph; or

(ii) where no date is specified in such direction, until the expiry of 28 days from the date on which the Authority receives the report referred to in sub-paragraph (a)(iii); or

(iii) if the Authority directs the licensee not to make the revision before the expiry of the 28 day period referred to in sub-paragraph 7 (b) (ii) above.

8. **Not used.**

9. The licensee shall take all reasonable steps to comply with the statement for the time being in force pursuant to paragraph 5.

10. The licensee shall send to the Authority a copy of each of the statements and reports prepared pursuant to paragraphs 3, 4, 5 and 6 and of all revisions to any such statements made in accordance with the terms of paragraph 7 of this special condition.

11. The licensee shall:

(a) publish (in such manner as the Authority may approve from time to time) the statements prepared pursuant to paragraphs 3(a), 5(a) and 6(b)(iii) and each revision thereof, and

(b) send a copy of each statement and report prepared pursuant to paragraphs 3, 4, 5 and 6 or the latest revision of any such statements to any person who requests the same, provided that the licensee shall exclude therefrom, so far as is practicable, any matter which relates to the affairs of any person where the publication of that matter would or might seriously and prejudicially affect his interests,

and, for the purposes of paragraph (b), the licensee shall refer for determination by the Authority any question as to whether any matter would or might seriously and prejudicially affect the interests of any person (unless the Authority consents to the licensee not doing so).

12. The licensee may make a charge for any copy of a statement, report or revision sent pursuant to paragraph 11(b) of an amount reasonably reflecting the licensee's reasonable costs of providing such a copy which shall not exceed the

maximum amount specified in directions issued by the Authority for the purpose of this special condition.

13. The licensee shall, unless the Authority otherwise consents, maintain for a period of six years:
 - (a) particulars of all balancing services offered to it;
 - (b) particulars of all contracts (other than those in the balancing mechanism) for balancing services which it entered into;
 - (c) particulars of all contracts for balancing services entered into by way of the acceptance of a bid or offer in the balancing mechanism where the bid or offer was made pursuant to a prior agreement;
 - (d) records of all balancing services called for and provided; and
 - (e) records of quantities of electricity imported and exported across each interconnector(s).
14. The licensee shall provide to the Authority such information as the Authority shall request concerning the procurement and use of balancing services.

15. In this special condition:

"imbalance price" means a price, in the BSC, for charging for imbalances as referred to in paragraph 2(b)(ii) of standard condition C3 (Balancing and Settlement Code);

"relevant balancing services" means balancing services other than

- (a) those which the licensee has acquired through the mere acceptance of an offer or bid in the balancing mechanism,

provided that such offer or bid was not made pursuant to any prior agreement, and

- (b) those which the Authority directs the licensee not to treat as relevant balancing services.

"balancing services adjustment data methodology"

means a methodology to be used by the licensee to determine what costs and volumes of relevant balancing services are to be taken into account under the BSC for the purposes of determining in whole or in part the imbalance price(s) in any period, which methodology shall cover each of the kinds of balancing services which the licensee buys, sells or acquires, and the mechanisms by which the licensee buys, sells or acquires them, at the time at which the methodology is established.

Special Condition AA5: Revenue Restriction Conditions: Definitions

1. In this special condition, and in special conditions AA5A to AA5E inclusive and in Schedule A:

“average specified rate” means the average of the daily base rates of Barclays Bank PLC current from time to time during the period in respect of which any calculation falls to be made.

“balancing services activity revenue” means the total revenue derived by the licensee from the carrying on of the balancing services activity.

“balancing services activity revenue restriction” means Parts 2(i) and (ii) of special condition AA5A, and Part B of Schedule A , together with such parts of special conditions AA5B, AA5C, AA5D and AA5E inclusive as are ancillary thereto, all as from time to time modified or replaced in accordance therewith or pursuant to sections 11, 14 or 15 of the Act.

“excluded services” means those services provided by the licensee as part of its transmission business which in accordance with the principles set out in Part A of Schedule A fall to be treated as excluded services.

“maximum revenue” means the revenue calculated in accordance with the formula in Part 1 of special condition AA5A.

"New Electricity Trading Arrangements" or "(NETA)"

Means the wholesale electricity trading arrangements in England and Wales introduced by the Secretary of State under the Utilities Act 2000.

"non-domestic rates"

Means non-domestic rates payable by the licensee in respect of hereditaments (other than excepted hereditaments being a hereditament consisting of or comprising premises used wholly or mainly:

- (a) as a shop or other place for the sale, display or demonstration of apparatus or accessories for use by consumers of electricity (any use for receipts of payments for the use of electricity being disregarded);
- (b) as office premises of the licensee where those premises are not situated on operational land of the licensee; or
- (c) for both of the foregoing purposes (for the avoidance of doubt, office premises and operational land shall have the meaning ascribed to those terms in SI 2000/525 Central Ratings List (England) Regulations))

wholly or mainly used for the purposes of the transformation or transmission of electrical power, or for ancillary purposes.

"relevant period t"

means that period for the purposes of

which any calculation falls to be made commencing on the effective time and ending on 31 March 2002 and thereafter shall have the same meaning as "relevant year t".

"relevant year" means a financial year commencing on or after 1 April 1990.

"relevant year t" means that relevant year for the purposes of which any calculation falls to be made; "relevant year t-1" means the relevant year preceding relevant year t, and similar expressions shall be construed accordingly.

"remote transmission asset rentals" means any rent or other periodic payment receivable by the licensee from an authorised electricity operator under an agreement relating to remote transmission assets.

"transmission network revenue" means the aggregate of revenue in the relevant year derived by the licensee from the provision of transmission network services and from remote transmission asset rentals.

"transmission network revenue restriction" means Part 1 of special condition AA5A, and Part A of Schedule A and such parts of special condition AA5 and special conditions AA5B to AA5E inclusive as are ancillary thereto, all as from time to time modified or replaced in accordance therewith or pursuant to sections 11, 14

or 15 of the Act.

“user maintenance” means maintenance by a user of connections in operation before the grant of this licence

2. In this special condition and in special conditions AA5A to AA5E inclusive and Schedule A, all revenue shall be measured on an accruals basis, after deduction of value added tax (if any) and any other taxes based directly on the amounts so derived.
3. Any term used in a formula appearing in special conditions AA5A to AA5E inclusive and Schedule A and defined for the purpose of that formula shall have the same meaning if used in any other formula in those special conditions.
4. In this special condition and in special conditions AA5A to AA5E and Schedule A, any cost, charge, payment or amount may either be positive or negative.

Special Condition AA5A: Revised Restrictions on Revenue

Nothing in this text alters the operation of part 1 of this special condition (paragraphs 1 – 4 inclusive).

Part 2 (i): Balancing services activity revenue restriction on external costs

5. The licensee shall use its best endeavours to ensure that in the relevant period t the revenue derived from and associated with procuring and using balancing services (being the external costs of the balancing services activity) shall not exceed an amount calculated in accordance with the following formula:

$$BXext_t = CSOBM_t + BSCC_t + ET_t - OM_t + IncPayExt_t$$

where:

BXext_t which represents the maximum allowed revenue derived in relevant period t from and associated with procuring and using balancing services, is the aggregate of the following components:

CSOBM_t which represents the cost to the licensee of bids and offers in the balancing mechanism accepted by the licensee in relevant period t less the total non-delivery charge for that period, is the sum across relevant period t of the values of CSOBM_j (being the daily system operator BM cashflow as defined in Table X-2 of Section X of the BSC in force immediately prior to 1 April 2001);

BSCC_t means the costs to the licensee of contracts for the availability or use of balancing services during the relevant period t, excluding costs within CSOBM_t but including charges made by the

licensee for the provision of balancing services to itself in the relevant period t;

ET_t means the amount of any adjustment to be made during the relevant period t in respect of a previous relevant year as provided in paragraph 6;

OM_t means an amount representing the revenue from the provision of balancing services to others during relevant period t, calculated in accordance with paragraph 7;

$IncPayExt_t$ means an incentive payment for relevant period t calculated in accordance with paragraph 8.

6. Balancing services activity adjustments

For the purposes of paragraph 5, the term ET_t which relates to prior year adjustments in respect of the relevant period t shall mean:

- (a) the costs, whether positive or negative, to the licensee of
- bids and offers in the balancing mechanism accepted by the licensee in any relevant year before relevant period t less the total non-delivery charge for the period; and
 - contracts for the availability or use of balancing services during any relevant year before relevant period t, excluding costs within $CSOBM_t$ for any relevant year, but including charges made by the licensee for the provision of balancing services to itself in any relevant year before relevant period t

in each case after deducting such costs to the extent that they have been taken into account in any relevant year in computing the terms $CSOBM_t$ or $BSCC_t$; and

- (b) any amount within the term ET_t as defined in this licence in the form it was in on 1 April 2000 whether as then defined or as now defined.

7. Provision of balancing services to others

For the purpose of paragraph 5, OM_t (the amount representing the revenue from the provision of balancing services to others) shall be the sum of:

- (a) the total amount (exclusive of interest and value added tax attributable thereto) recovered by the licensee in respect of the relevant period t under any agreements entered into between an electricity supplier (being the holder of a supply licence granted or treated as granted under Section 6(1)(d) of the Act) or network operator (as defined in the grid code) and the licensee pursuant to which the costs of operation or non-operation of generation sets which are required to support the stability of a user system (as defined in the grid code) are charged to such electricity supplier (as defined above) or network operator (as defined in the grid code); and
- (b) the total costs (exclusive of interest and value added tax attributable thereto) incurred by the licensee in respect of the relevant period t which arise by reason of the operation or non-operation of generation sets and which result directly or indirectly from works associated with the licensee's transmission system or works thereon being carried out, rescheduled or cancelled by reason of any agreement with, or request of, any third party other than an electricity supplier (as defined in paragraph 7 (a) of this special condition) or network operator (as defined in the grid code).

8. Determination of incentive payments on external costs

For the purposes of paragraph 5, the term $IncPayExt_t$ shall be derived from the following formula:

$$IncPayExt_t = [SF_t(MT_t - IBC_t) + CB_t]$$

where:

SF_t which is a balancing services activity sharing factor in respect of relevant period t , has the value specified either against the value of IBC_t for the relevant period t in the column headed SF_t in the table in paragraph B1 (a) of Part B of Schedule A or in paragraph B1 (b) of Part B of Schedule A.

MT_t which is a target for balancing services activity incentivised external costs in respect of relevant period t , has the value specified either against the value IBC_t for relevant period t in the column headed MT_t in the table in paragraph B1 (a) of Part B of Schedule A or in paragraph B1 (b) of Part B of Schedule A.

IBC_t which is the cost of balancing services on which the licensee is incentivised during the relevant period t , is calculated in accordance with the formula given in paragraph 9.

CB_t which is a balancing services sharing factor offset in respect of the relevant period t , has the value either specified against the value of IBC_t for the relevant period t in the column headed CB_t in the table in paragraph B1 (a) of Part B of Schedule A or in paragraph B1 (b) of that Part.

9. For the purposes of paragraph 8, the term IBC_t in respect of relevant period t shall be calculated in accordance with the following formula:

$$IBC_t = CSOBM_t + BSCC_t + \sum_j (TL_j [TLRP_j]) + \sum_j (TQEI_j [NIRP_j]) - RT_t - OM_t$$

where:

j in all cases shall mean a settlement period (being a half an hour) as defined in the BSC.

$\sum_j (TL_j [TLRP_j])$ is the volume of transmission losses (TL_j) multiplied by the transmission losses reference price ($TLRP_j$) for each settlement period, summed across all settlement periods in the relevant period t .

$\sum_j (TQEI_j [NIRP_j])$ is the total net imbalance volume ($TQEI_j$) as defined in the BSC in force immediately prior to 1 April 2001 multiplied by the net imbalance volume reference price ($NIRP_j$) for each settlement period, summed across all settlement periods in the relevant period t .

TL_j which is the volume of transmission losses, is given by the sum of BM unit metered volumes (as from time to time defined in the BSC) during the settlement period j for all BM units (as from time to time defined in the BSC), being the difference between the quantities of electricity delivered to the licensee's transmission system and the quantity taken from the licensee's transmission system during that settlement period, but excluding all generator transformer losses.

$TLRP_j$ which is the transmission losses reference price, has the value specified for each settlement period set out in paragraph B3 of Part B of Schedule A.

NIRP_j which is the net imbalance volume reference price for each settlement period *j*, has the values set out in paragraph B4 in Part B Schedule A.

RT_t means the amount of any allowed income adjustments given by paragraph 12 (b) in respect of relevant period *t*.

10. Income adjusting events under the balancing services activity

(a) An income adjusting event is any of the following:

- (i) an event or circumstance constituting force majeure under the BSC;
- (ii) an event or circumstance constituting force majeure under the CUSC made between the licensee and others and providing for connection to and use of the licensee's transmission system;
- (iii) a security period as defined in special condition AA5D; and
- (iv) an event or circumstance which is, in the opinion of the Authority, an income adjusting event and approved by it as such.

(b) For the purpose of relevant year *t* commencing on 1 April 2002 and ending on 31 March 2003, the following items listed in tables 1 and 2 below shall not qualify as an income adjusting event for the purpose of sub-paragraph (a) above:

Table 1:

Mod No.	CUSC Amendment Title (Proposer)
CAP002	Clause 6.5.1 (NGC)
CAP003	Panel Indemnities (NGC)
CAP004	Cost Benefit Analysis (British Energy)
CAP005	CUSC Panel's Role (British Energy)
CAP006	Non-Discrimination (British Energy)
CAP007	Role of Standing Group (British Energy)
CAP008	Codification Errors (British Energy)
CAP009	Mandatory Frequency Response (First Hydro)

Mod No.	CUSC Amendment Title (Proposer)
CAP010	Frequency Response Imbalance Exposure (Innogy)
CAP011	Changes to Frequency Response Payments (to reflect potential BSC modification) (NGC)
CAP012	Procedure for Renewal of NGC (Connection) Assets (Innogy)
CAP013	Removal of Redundant Paragraph 6.6.1(b) (NGC)
CAP014	Removal of Redundant Paragraphs in Section 3.12 (NGC)

Table 2:

Mod No.	BSC Modification Title (Proposer)
P01	Extension Of The Definition Of ECVAA Systems Failure For Permitting Post Gate Closure Notification (OM London Exchange Ltd)
P04	Dual Energy Contract Notification (Dynergy UK Limited)
P07	Allocation Of Supplier Demand To The Same BM Unit in A GSP Group For All Suppliers In The Same Company Group (Powergen)
P11	Revision Of Minimum Credit Cover Requirements (Euro Power)
P12	Reduction Of Gate Closure From 3.5 Hours To 1 Hour (Damhead Creek Ltd)
P26	Market Driven Trading Neutrality Band (Bizzenergy)
P27	Amendment to the Derivation of Imbalance Prices (Elec Direct)
P28	Review of Governance and Modification Procedures (Dynergy/Amerada)
P34	Transfer of Imbalances Caused by Balancing Services to NGC (NGC)
P35	Qualified ECVNAs (Automated Power Exchange)
P36	The generation of Bid-Offer Acceptances relating to energy delivered as a result of providing Applicable Balancing Services (Innogy)
P37	The Remedy of Past Errors in ECVNs and in MVRNs (London Electricity)
P38	Redefined Definition Of CAD To Allow Prompt Price Reporting (Slough Heat and Power)
P39	Improvements To The Payment Default Process (The Panel / ELEXON)
P40	Calculation of Negative Estimates of Annual Consumption (EAC) (SEEBOARD)
P41	Allocation Of individual NHH MPANs different BM Units (Utility Link Ltd)
P43	Provision of AA and EAC Data (Western Power)
P44	Correction of Notification Errors where Parties are able to satisfy a Reasonable and Prudent Operator test (PowerGen UK Plc)
P45	Price Adjusters for Settlement Days 05/04/01 to 24/09/01 (The Panel / ELEXON)
P46	Housekeeping Modification (The Panel /ELEXON)
P47	Termination Process for ECVNA and MVRNA Authorisations (The Panel / ELEXON)
P48	Half Hourly Receipt And Publication Of BSAD Data (NGC)

Mod No.	BSC Modification Title (Proposer)
P49	Timing of Publication Of Indicative P18 Option A Prices On The B.M.R.S. (The Panel / ELEXON)
P50	Distribution Of BM Aggregation Report Data To Non BSC Parties (UK Coal Mining Ltd.)
P52	Non-Party Access to the BMRS via the High Grade Service (Seaboard)
P53	Changes to DC, GC and CALF and the Effect on Energy Indebtedness (The Panel / ELEXON)
P55	Consolidation of Embedded Generation in CVA (SmartestEnergy)
P56	Proposed Modification to the BSC in order to reflect amended references in The National Grid Company plc's Transmission Licence (NGC)
P57	Amendment to BSC Failing Supplier Process (British Gas Trading)
P59	The acceptance of Bids and Offers to honour a BM Unit's dynamic parameters beyond the Balancing Mechanism window (Innogy)
P60	Amendment To Obligation To Register Metering Systems In Relation To Trade Sales (British Gas Trading)
P61	Ad Hoc Adjustments to Settlement involving material errors without resorting to Ad Hoc Settlement Runs (Scottish Power)
P62	Changes to Facilitate Competitive Supply On The Networks Of New Licensed Distributors (TXU-Europe)
P63	Change of Contract Management of MPANs for DC, DA & MO (British Gas Trading)
P64	Reduction of GC Values to Zero During a BSC Season (TXU-Europe)
P65	Attendance of Proposer's Representative at Panel Meetings (TXU-Europe)
P66	ECVNAs & MVRNAs to Receive ECVAAs Forward Contract Report (TXU-Europe)
P67	Facilitation for Further Consolidation Options (PowerGen Uk PLC)

(c) The Authority's approval of an income adjusting event shall be in writing, shall be copied to the licensee and shall be in the public domain; and the Authority may revoke this approval with the consent of the licensee.

11. (a) Where it appears to the licensee that there have been in respect of relevant period t costs and/or expenses which:

- (i) have been caused or saved by an income adjusting event; and
- (ii) have, for relevant period t, increased or decreased by more than £2,000,000 the value of IBC_t save that in the case of paragraph 10(a)(iii) only the threshold of £2,000,000 shall not apply

then the licensee shall give notice thereof to the Authority.

- (b) Where it appears to any other Party (as defined in the BSC) that there have been in respect of relevant year t costs and/or expenses which:

- (i) have been caused or saved by an income adjusting event; and
- (ii) have, for the relevant period t, increased or decreased by more than £2,000,000 the value of IBC_t save that in the case of paragraph 10(a)(iii) only the threshold of £2,000,000 shall not apply

then that Party (as defined in the BSC) may give notice thereof to the Authority.

- (c) The notice provided for in subparagraphs (a) and (b) shall give particulars of:

- (i) the income adjusting event to which the notice relates;
- (ii) the amount of any change in costs and/or expenses which appear to the person giving the notice to have been caused or saved by the event and the method of calculating such costs and/or expenses; and
- (iii) the amount of any allowed income adjustment proposed as a consequence of that income adjusting event.

- (d) A notice of an income adjusting event shall be given as soon as is reasonably practicable after the occurrence of the income adjusting event, and may not be given more than 3 months after the end of the relevant period in which it occurs.
12. (a) The Authority shall determine (after consultation with the licensee and such other persons as it considers desirable):
- (i) whether any or all of the costs and/or expenses given in a notice pursuant to paragraph 11 are caused or saved by an income adjusting event;
 - (ii) whether the amount specified for the purpose of paragraph 11(c)(iii) has increased or decreased the value of IBC_t by more than £2,000,000 save that in the case of paragraph 10(a)(iii) only, the threshold of £2,000,000 shall not apply; and
 - (iii) if so, whether the amount of the proposed income adjustment ensures that the financial position and performance of the licensee are, insofar as is reasonably practicable, the same as if that income adjusting event had not taken place, and if not, what allowed income adjustment would secure that effect.
- (b) In relation to the relevant period t , the allowed income adjustment RT_t shall be
- (i) the value determined by the Authority under subparagraph (a);
 - (ii) if the Authority has not made a determination in accordance with subparagraph (a) within 3 months of the date of the notice under paragraph 11, the respective values given to them in that notice; or
 - (iii) in any other case, zero.

Special Condition AA5E: Duration of the Transmission Network Revenue Restriction and the Balancing Services Activity Revenue Restriction

1. The balancing services activity revenue restriction and the transmission network revenue restriction shall apply so long as this licence continues in force but shall cease to have effect in such circumstances and at such times as are described in paragraphs 2 to 6 below.
2. The transmission network revenue restriction and the balancing services activity revenue restriction (or any of them) shall cease to have effect (in whole or in part, as the case may be) if the licensee delivers to the Authority a disapplication request made in accordance with paragraph 3 or notice is given to the Authority by the licensee in accordance with either paragraph 5 or paragraph 6.
3. A disapplication request shall
 - (i) be in writing addressed to the Authority,
 - (ii) specify whether it relates to the balancing services activity revenue restriction and/or to the transmission network revenue restriction (or to both or any of them or to any part or parts thereof) and
 - (iii) state the date (being not earlier than the date referred to in paragraph 4) from which the licensee wishes the Authority to agree that those conditions shall cease to have effect.
4. No disapplication following delivery of a disapplication request shall have effect until a date being the earlier of not less than 18 months after delivery of the disapplication request or the following date:
 - (i) in the case of a disapplication request which relates to the transmission network revenue restriction, 31 March 2006;
 - (ii) in the case of a disapplication request which relates to the balancing services activity revenue restriction set out in Part 2(i) of special condition AA5A, 31 March 2003; and
 - (iii) in the case of a disapplication request which relates to the balancing

services activity revenue restriction set out in Part 2(ii) special condition AA5A, 31 March 2006.

Provided that in the event of a disapplication request being served by the licensee in the absence of agreeing any or all of the transmission network revenue and the balancing services activity revenue restriction the following default position shall apply:-

- (A) for the transmission network revenue restriction, the maximum allowable revenue for the relevant year commencing 1 April 2006 shall be defined in accordance with the formula in Part 1 of special condition AA5A where X_g equals zero and GW_{ref} , Rate_i and L_i shall have the same values as those given in paragraphs 3 and 4 of Part 1 of special condition AA5A for the relevant year commencing on 1 April 2005;
 - (B) for the balancing services activity revenue restriction set out in Part 2(ii) of special condition AA5A, the values set out in Schedule A, Part B for the relevant year commencing on 1 April 2005 shall apply; and
 - (C) for the balancing services activity revenue restriction set out in Part 2(i) of special condition AA5A, the values set out in Schedule A, Part B shall apply.
5. If the Authority has not made a reference to the Competition Commission under section 12 of the Act relating to the modification of the Conditions or the part or parts thereof specified in the disapplication request before the beginning of the period of 12 months which will end with the disapplication date, the licensee may deliver written notice to the Authority terminating the application of such Conditions (or any part or parts thereof) as are specified in the disapplication request with effect from the disapplication date or a later date.
 6. If the Competition Commission makes a report on a reference made by the Authority relating to the modification of the Conditions (or any part or parts

thereof) specified in the disapplication request and such report does not include a conclusion that the cessation of those Conditions, in whole or in part, operates or may be expected to operate against the public interest, the licensee may within 30 days after the publication of the report by the Authority in accordance with section 13 of the Act deliver to him written notice terminating the application of those conditions or any part or parts thereof with effect from the disapplication date or later.

**SCHEDULE A : SUPPLEMENTARY PROVISIONS OF THE CHARGE RESTRICTION
CONDITIONS**

PART B

Terms used in the balancing services activity revenue restriction

B1. For the purpose of paragraph 8 of Part 2(i) of special condition AA5A, the terms MT_t , SF_t and CB_t shall be selected against the appropriate value of IBC_t (which shall be determined in accordance with paragraph 9 of special condition AA5A):

(a) in respect of the relevant year t commencing on 1 April 2002, from the following table:

IBC_t (£)	MT_t (£)	SF_t	CB_t (£)
< 360,000,000	0	0	60,000,000
360,000,000 < = IBC_t < 460,000,000	460,000,000	0.60	0
460,000,000 < = IBC_t < 550,000,000	460,000,000	0.50	0
> = 550,000,000	0	0	-45,000,000

(b) in respect of the relevant year t commencing on 1 April 2003 and each relevant year thereafter, the terms MT_t , SF_t and CB_t shall be set to zero.

B2. Not used.

B3. For the purpose of paragraph 9 of Part 2(i) of special condition AA5A, the term TLRP_j in respect of each settlement period during relevant period t shall have the value in £ per megawatt hour of 18.50.

B4. For the purpose of paragraph 9 of Part 2(i) of special condition AA5A, the term NLRP_j, which is the net imbalance volume reference price for each settlement period j, during relevant period t, shall be derived as follows:

(a)(i) when UKPX_j and APX_j data is published in respect of the relevant settlement period j then:

$$SPNLRP_j = (0.5 * UKPX_j) + (0.5 * APX_j)$$

(ii) when UKPX_j data is published and APX_j data is not published in respect of the relevant settlement period j then:

$$SPNLRP_j = UKPX_j$$

(iii) where UKPX_j data is not published in respect of the relevant settlement period j and APX_j data is published in respect of the relevant settlement period j then:

$$SPNLRP_j = APX_j$$

(iv) where neither UKPX_j data and APX_j data has been published in respect of the relevant settlement period j then:

$$SPNLRP_j = SPNLRP_{j-1}$$

where:

SPNLRP_j means the single price net imbalance volume reference price for each settlement period j.

j in all cases shall mean a settlement period (being a half an hour) as defined in the BSC.

$j-1$ the settlement period immediately preceding the relevant settlement period j .

$UKPX_j$ means the United Kingdom Power Exchange (UKPX) volume weighted reference price for each settlement period j based on the traded prices of half hourly spot contracts.

EFA block means the six four hourly blocks within the EFA day (being 23.00 hours to 23.00 hours in the immediately following day) set out in the table below:

Block	Time
1	23:00 to 03:00
2	03:00 to 07:00
3	07:00 to 11:00
4	11:00 to 15:00
5	15:00 to 19:00
6	19:00 to 23:00

APX_j means the Automated Power Exchange (UK APX) weighted average price in respect of all half hourly spot market and four (4) hour block market contracts delivered within the EFA block applying to those settlement periods j . In order to derive the APX_j price in respect of each relevant settlement period j the EFA block containing the relevant j shall be used.

(b) The term $NIRP_j$ shall be derived as follows:

(i) when $TQEI_j < 0$

$$NIRP_j = SPNIRP_j + (SPNIRP_j * PA1)$$

(ii) when $TQEI_j > 0$

$$NIRP_j = SPNIRP_j - (SPNIRP_j * PA2)$$

(iii) when $TQEI_j = 0$

$$NIRP_j = 0$$

where in respect of the relevant period t, the terms PA1 and PA2 shall have the value ascribed to those terms in the following table:

PA1	1.5
PA2	0.5

B5. For the purposes of paragraph 15 of Part 2(ii) of special condition AA5A, the term ISF_t shall be selected against the value of $CSOC_t$ (which shall be determined in accordance with paragraph 14 of Part 2(ii) of special condition AA5A):

(a) in respect of the relevant period t commencing on the day on which the effective time occurs, from the following table:

(CSOC_t) (£)	ISF_t
< 56,880,216 (R _t / Z _t)	0.40
= > 56,880,216 (R _t / Z _t)	0.12

where R_t and Z_t shall have the meaning ascribed to them in paragraph B12.

(b) in respect of the relevant year t commencing on 1 April 2002, from the following table:

(CSOC_t) (£)	ISF_t
< 55,869,013 (R _t / Z _t)	0.60

$= > 55,869,013 (R_t / Z_t)$	0.50
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where R_t and Z_t shall have the meaning ascribed to them in paragraph B12.

- (c) in respect of the relevant year t commencing on 1 April 2003, from the following table:

(CSOC_t) (£)	ISF_t
$< 57,753,517 (R_t / Z_t)$	0.60
$= > 57,753,517 (R_t / Z_t)$	0.50

where R_t and Z_t shall have the meaning ascribed to them in paragraph B12.

- (d) in respect of the relevant year t commencing on 1 April 2004, from the following table:

(CSOC_t) (£)	ISF_t
$< 57,567,216 (R_t / Z_t)$	0.60
$= > 57,567,216 (R_t / Z_t)$	0.50

where R_t and Z_t shall have the meaning ascribed to them in paragraph B12.

- (e) and in respect of the relevant year t commencing on 1 April 2005, from the following table:

(CSOC_t) (£)	ISF_t
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< 60,656,843 (R_t / Z_t)	0.60
= > 60,656,843 (R_t / Z_t)	0.50

where R_t and Z_t shall have the meaning ascribed to them in paragraph B12.

- B6. For the purposes of paragraph 15 of Part 2(ii) of special condition AA5A, the term IMT_t in respect of the relevant year t shall be derived from the following table:

Relevant Year Commencing 1 April	IMT_t (£)
2001	56,880,216 (R_t / Z_t)
2002	55,869,013 (R_t / Z_t)
2003	57,753,517 (R_t / Z_t)
2004	57,567,216 (R_t / Z_t)
2005	60,656,843 (R_t / Z_t)

where R_t and Z_t shall have the meaning ascribed to them in paragraph B12.

- B7. For the purposes of paragraph 14 of Part 2(ii) of special condition AA5A, the term $NSOC_t$ in respect of the relevant year t shall be derived from the following table:

Relevant Year Commencing 1 April	$NSOC_t$
2001	21,698,749 (R_t / Z_t)
2002	21,165,761 (R_t / Z_t)

2003	20,602,773 (R _t / Z _t)
2004	20,120,580 (R _t / Z _t)
2005	19,496,842 (R _t / Z _t)

where R_t and Z_t shall have the meaning ascribed to them in paragraph B12.

- B8. For the purpose of paragraph 14 of Part 2(ii) of special condition AA5A, the term SOBR_t (being an allowance for non-domestic rates incurred by the licensee in operating the licensee's transmission system during relevant year t) shall be given by the following formula:

$$SOBR_t = SORate_t + \left(SORateDiff_t \left(1 + \frac{I_t}{100} \right) \right)$$

where:

SORate_t is given by the table below;

Relevant Year commencing 1 April	2000	2001	2002	2003	2004	2005
SORate _t	0	1,000,000	1,000,000	1,000,000	1,000,000	1,100,000

and:

SORateDiff_t is the difference between the non-domestic rates payable by the licensee in operating the licensee's transmission system in respect of year t-1 and SORate_{t-1}:

- B9. For the purpose of paragraph 14 of Part 2(ii) of special condition AA5A, the term

PSC_t (being the costs incurred by the licensee in preparing participants' systems for the introduction of the New Electricity Trading Arrangements to be recovered under the balancing services activity) shall have the value given by the following formula:

$$PSC_t = PSAC_t + \left(PSACDiff_t \left(1 + \frac{I_t}{100} \right) \right)$$

where:

PSAC_t is given by the table below:

Relevant Year commencing on 1 April	2000	2001	2002	2003	2004	2005
PSAC _t	0	4,200,000	0	0	0	0

and:

PSACDiff_t is the difference between the participant support costs incurred by the licensee in year t in respect of preparing participants' systems for the introduction of the New Electricity Trading Arrangements and PSAC_t.

B10. For the purpose of paragraph 13 of Part 2(ii) of special condition AA5A, the term ASO_t shall have the value specified by the following formula:

$$ASO_t = \text{£}5,600,000 \left[\frac{NT}{365} \right]$$

where:

NT is given by the number of days, from and including the day on which the effective time occurred, to and including 31 March 2001, but otherwise have the value of zero.

B11. For the purpose of paragraph 13 of Part 2(ii) of special condition AA5A, the value of the term NPI

(a) in respect of the relevant period t shall be given by the following formula:

$$NPI = \frac{ND}{365} \quad \text{if} \quad ND \leq 365; \quad \text{or}$$

$$NPI = 1, \quad \text{if} \quad ND > 365;$$

where:

ND is given by the number of days from and including the day on which the effective time occurs to and including 31 March 2002; and

(b) for each relevant year t thereafter shall be 1.

B12. For the purpose of paragraphs B5, B6, B7, B13 and B14 of this Schedule:

Z_t has the value against relevant year t in the following table:

Relevant year t Commencing 1 April	Z _t
2001	175.17
2002	178.67
2003	182.25
2004	185.89
2005	189.61

and

RI_t shall have the value Z_t until such time as the Retail Price Index for the last month of each relevant year t is known when it shall be the arithmetic average of the Retail Price Indices in respect of each month of each relevant year t.

RM shall, until such time as the Retail Price Index for March 2001 is known, be 171.42 (being the forecast of the Retail Price Index prepared by Business Strategies Limited in December 2000 in respect of the relevant year commencing on 1 April 2000 on the assumption that the Retail Price Index for January 1987 equals 100) after which it shall become the arithmetic average of the Retail Price Indices in respect of each month of the relevant year commencing on 1 April 2000.

B13. For the purpose of paragraph 15 of Part 2(ii) of special condition AA5A, the term CSF_{Mt} shall have the value:

(a) in respect of each month M of the relevant period t commencing at the effective time

(i) $CSF_{Mt} = 0.4$ when $0 \leq 0.4 CP_{Mt} < \pounds 250,000$

(ii) $CSF_{Mt} = 0$ otherwise

(b) in respect of each month M of the relevant year t commencing on 1 April 2002 and of each relevant year thereafter

(i)

$$CSF_{Mt} = 0.4 \text{ when } 0 \leq \left[0.4 CP_{Mt} \right] < \left[\pounds 250,000 \left(\frac{Z_t}{RN} \right) \left(\frac{RI_t}{Z_t} \right) \right]$$

(ii) $CSF_{Mt} = 0$ otherwise

where:

RN shall, until such time as the Retail Price Index for March 2002 is known, be 175.17 (being the forecast of the Retail Price Index prepared by Business Strategies Limited in December 2000 in respect of the relevant year commencing on 1 April 2001 on the assumption that the Retail Price Index for January 1987 equals 100) after which it shall become the arithmetic average of the Retail Price Index in respect of each month of the relevant year commencing on 1 April 2001.

and

R_i and Z_t shall have the meanings ascribed to them in paragraph B12.

B14. For the purposes of paragraph 15 of Part 2(ii) of special condition AA5A, the term OS_{Mt} shall have the value:

(a) in respect of each month M of the relevant period t commencing at the effective time

(i) OS_{Mt} = 0 when CSF_{Mt} > 0

(ii) OS_{Mt} = £250,000 when CSF_{Mt} = 0

(b) in respect of each month M of the relevant year t commencing on 1 April 2002 and of each relevant year thereafter

(i) OS_{Mt} = 0 when CSF_{Mt} > 0

(ii) OS_{Mt} = £250,000 $\left(\frac{Z_t}{RN}\right)\left(\frac{R'_t}{Z_t}\right)$ when CSF_{Mt} = 0

where:

R_i and Z_t shall have the meanings ascribed to them in paragraph B12 and
 R_N shall have the meaning ascribed to it in paragraph B13.