

**TRANSMISSION LICENCE OF SCOTTISH HYDRO-ELECTRIC
TRANSMISSION LIMITED AS AMENDED BY LICENSING SCHEME MADE
BY SECRETARY OF STATE ON 26 AUGUST 2004**

Following is the text of the transmission licence of Scottish Hydro-Electric Transmission Limited to which the licensing scheme made by the Secretary of State on 26 August 2004 pursuant to her powers under Section 138 and Schedule 17 of the Energy Act 2004 relates as such licence has effect by virtue of that scheme. The conditions contained in Parts II, III and IV of the aforementioned licence was further modified by a direction made by the Secretary of State on 31 August 2004. Details of those modifications are available on the DTI website.

ANNEXE 2

**SCOTTISH HYDRO-ELECTRIC TRANSMISSION LIMITED TRANSMISSION
LICENCE**

PART I. TERMS OF THE LICENCE

1. This licence, treated as granted under section 6(1)(b) of the Electricity Act 1989 ("the Act"), authorises Scottish Hydro-Electric Transmission Limited (a company registered in Scotland under number SC213461 ("the licensee") whose registered office is situated at Inveralmond HS, 200 Dunkeld Road, Perth, Perthshire PH1 3AQ, to participate in the transmission of electricity for the purpose of giving a supply to any premises or enabling a supply to be so given in the area specified in Schedule 1 during the period specified in paragraph 3 below, subject to -
 - (a) the standard conditions of electricity transmission licences referred to in -
 - (i) paragraph 1 of Part II below which shall have effect in the licence; and
 - (ii) paragraph 2 of Part II below which shall have effect in the licence only in accordance with the provisions of standard conditions A2 and A3 respectively,

in each case, subject to such amendments (if any) as are set out in Part III below (together "the conditions");
 - (b) the special conditions, if any, set out in Part IV below ("the Special Conditions");
 - (c) such Schedules hereto, if any, as may be referenced in the conditions, the Special Conditions or the terms of the licence.
2. This licence is subject to transfer, modification or amendment in accordance with the provisions of the Act the Special Conditions or the conditions.
3. This licence, unless revoked in accordance with the terms of Schedule 2, shall continue until determined by not less than 25 years' notice in writing given by the Authority to the licensee.
4. The provisions of section 109(1) of the Act (Service of documents) shall have effect as if set out herein and as if for the words "this Act" there were substituted the words "this licence".
5. Without prejudice to sections 11 and 23(1) of the Interpretation Act 1978, Parts I to IV inclusive of, and the Schedules to, this licence shall be interpreted

and construed in like manner as an Act of Parliament passed after the commencement of the Interpretation Act 1978.

6. References in this licence to a provision of any enactment, where after the date of this licence -

(a) the enactment has been replaced or supplemented by another enactment, and

(b) such enactment incorporates a corresponding provision in relation to fundamentally the same subject matter,

shall be construed, so far as the context permits, as including a reference to the corresponding provision of that other enactment.

Pursuant to a licensing scheme made by the Secretary of State under Part II of Schedule 7 to the Utilities Act 2000 on 28th September 2001 this licence was made and is treated as granted under section 6(1)(b) of the Electricity Act 1989.

PART II. THE STANDARD CONDITIONS

1. Standard conditions in effect in this licence

Section A	Section B
Standard Condition A1	Standard Condition B1
Standard Condition A2	Standard Condition B2
Standard Condition A3	Standard Condition B3
Standard Condition A4	Standard Condition B4
	Standard Condition B5
	Standard Condition B6
	Standard Condition B7
	Standard Condition B8
	Standard Condition B9
	Standard Condition B10
	Standard Condition B11
	Standard Condition B12

2. Standard conditions not in effect in this licence

Section C	Section D
Standard Condition C1	Standard Condition D1
Standard Condition C2	Standard Condition D2
Standard Condition C3	Standard Condition D3
Standard Condition C4	Standard Condition D4A
Standard Condition C5	Standard Condition D4B
Standard Condition C6	Standard Condition D5
Standard Condition C7	Standard Condition D6
Standard Condition C8	
Standard Condition C9	
Standard Condition C10	
Standard Condition C11	
Standard Condition C12	
Standard Condition C13	
Standard Condition C14	
Standard Condition C15	

Standard Condition C16	
Standard Condition C17	

Note: A copy of the current standard conditions of electricity transmission licences can be inspected at the principal office of the Authority. The above lists are correct at the date of this licence but may be changed by subsequent amendments or modifications to the licence. The authoritative up-to-date version of this licence is available for public inspection at the principal office of the Authority.

PART III. AMENDED STANDARD CONDITIONS

1. Standard condition 1 shall be amended by the addition of the following text as an additional definition:

""bulk supply point" means any point at which electricity is delivered from a transmission system to any distribution system."
2. Standard condition 5 (Regulatory Accounts) shall be amended by the addition of the following text at the start of paragraph 6:

"6. Unless the Authority otherwise consents (such consent may be given in relation to some or all of the obligations in this condition and may be given subject to such conditions as the Authority considers appropriate),"
3. Standard condition 11 (Provision of Information to the Authority) shall be amended by the addition of the following text as new paragraphs 6 to 9.

"6. 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 that 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 its 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 by 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.

7. 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 6, and shall comply with any direction from the Authority to enforce any undertaking so procured.

8. 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 6 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 7 of this condition.

9. In this condition

"ultimate controller" means:

- (a) a holding company of the licensee which is not itself a subsidiary of another company; and
- (b) any person who (whether alone or with a person or persons connected with him) is in a position to control, or to exercise significant influence over, the policy of the licensee or any holding company of the licensee by virtue of:
 - (i) rights under contractual arrangements to which he is a party or of which he is a beneficiary; or
 - (ii) rights of ownership (including rights attached to or deriving from securities or rights under a trust) which are held by him or of which

he is a beneficiary; but
excluding any director or
employee of a corporate
body in his capacity as such;
and

- (c) for the purposes of sub-paragraph (b), a person is connected with another person if they are party to any arrangement regarding the exercise of any such rights as are described in that paragraph."

- 4. Standard condition 12 (Prohibition of Cross-Subsidies) shall be amended by the addition of the following text as a new paragraph 2 of that condition:

"2. Nothing which the licensee is obliged to do or not to do pursuant to this licence or any other document which grants a licence to the licensee under the Act shall be regarded as a cross-subsidy for the purposes of this condition."

PART IV. SPECIAL CONDITIONS

Special Condition A: Interpretation

1. Unless the context otherwise requires words and expressions used in the standard conditions of this licence shall bear the same meaning in these Special Conditions.
2. Any reference in these Special Conditions to -
 - (a) a provision thereof;
 - (b) a provision of the standard conditions;
 - (c) a provision of the standard conditions of electricity supply licences;
 - (d) a provision of the standard conditions of electricity distribution licences;
 - (e) a provision of the standard conditions of electricity generation licences;shall, if these or the standard conditions in question come to be modified, be construed, so far as the context permits, as a reference to the corresponding provision of these or the standard conditions in question as modified.

Special Condition B: Basis of charges for use of the Scottish interconnection

1. Unless (and except for so long as) the Authority approves otherwise, charges for use of the licensee's share of the Scottish interconnection shall be set at a level which will enable the licensee to recover no more than an appropriate proportion of the licensee's Scottish interconnection costs.
2. The licensee shall as soon as practicable after the transmission licence has come into force, and, in any event, not later than such date as the Authority shall specify, prepare a statement approved by the Authority setting out the basis upon which charges for use of the Scottish interconnection will be made, such statement to be in such form and to contain such detail as shall be necessary to enable any person to make a reasonable estimate of the charges to which it would become liable for use of the Scottish interconnection, and (without prejudice to the foregoing) including the information required to be included therein pursuant to paragraph 3.
3. Except to the extent that the Authority shall otherwise specify, the statement referred to in paragraph 2 shall include:
 - (a) a schedule of charges for transport of electricity under use of the licensee's share of the Scottish interconnection;
 - (b) the charge for maintaining voltage and frequency within statutory limits;
 - (c) a schedule of the adjustment factors to be made in respect of transmission losses, in the form of additional supplies required to cover those transmission losses;
 - (d) the methods by which and the principles on which charges (if any) will be made for the licensee making available transmission capacity from the licensee's share of the Scottish interconnection; and
 - (e) a description of the Annual Fixed Charge and the Capacity Charge referred to in paragraph 14(c); and
 - (f) such other matters as shall be specified in directions issued by the Authority from time to time for the purposes of this Condition.
4. In addition to, and without prejudice to, the licensee's obligations under paragraph 2, the licensee shall, upon being directed to do so in directions issued by the

Authority from time to time for the purposes of this Condition and within such period as shall be specified in the directions, prepare a statement approved by the Authority providing that charges for use of the licensee's share of the Scottish interconnection will be made on such basis as shall be specified in the directions and such statement shall be in such form and contain such detail as shall be necessary to enable any person to make a reasonable estimate of the charges to which it would become liable for use of the Scottish interconnection and (without prejudice to the foregoing) including such information as shall be specified in the directions. Each statement prepared in accordance with this paragraph shall, with effect from the date on which it is approved by the Authority or such later date as the Authority shall specify, replace the corresponding statement prepared by the licensee in accordance with paragraph 2 or, as the case may be, this paragraph (as from time to time revised in accordance with paragraph 5) which is in force at such date and the licensee shall, with effect from such date, make charges for use of the licensee's share of the Scottish interconnection in accordance with the statement (as from time to time revised in accordance with paragraph 5) which has replaced such corresponding statement.

5. The licensee may periodically revise the statement prepared in accordance with paragraph 2 or, in the event that the licensee shall have prepared a statement in accordance with paragraph 4, that statement or the latest of such statements and shall, at least once in every year the transmission licence is in force, revise such statement in order that the information set out therein shall continue to be accurate in all material respects. Each such revision shall require to be approved by the Authority and shall not become effective until approved by the Authority.
6. The licensee shall as soon as practicable after the transmission licence has come into force and, in any event, not later than such date as the Authority shall specify prepare a statement approved by the Authority showing:
 - (a) the amount of the capacity of the Scottish interconnection which the licensee anticipates will be available for the transfer of electricity from Scotland to England and England to Scotland during each remaining week of the year ending on 31 March 1991 as notified by SP Transmission Limited to the licensee pursuant to the Interconnector Agreement;
 - (b) the amount of that capacity in relation to which the licensee has a right to

require SP Transmission Limited to receive and deliver electricity as referred to in sub-paragraph (b) of paragraph 14;

- (c) the licensee's forecast of the amount of the capacity referred to in sub-paragraph (b) above which will be used for the transfer of electricity from Scotland to England and from England to Scotland during each week referred to in sub-paragraph (a) above; and
 - (d) such other matters (if any) as the Authority shall specify prior to its approval of the statement.
7. The licensee shall, as soon as practicable (and, in any event, within such period as the Authority shall specify) after receiving a notification such as is referred to in sub-paragraph (a) of paragraph 6 from SP Transmission Limited in respect of the year ending on 31 March 1992 and each subsequent year, prepare a statement approved by the Authority showing the matters referred to in sub-paragraphs (a) to (d) of paragraph 6 in respect of that year.
 8. The licensee shall send a copy of the statement prepared in accordance with paragraph 2 and any statement prepared in accordance with paragraph 4, and of each revision of such statements in accordance with paragraph 5, and of each statement prepared in accordance with paragraphs 6 and 7 and with paragraphs 3(a) and 8 of Special Condition D (Requirement to Offer Terms), to the Authority.
 9. The licensee shall give or send a copy of the statement prepared in accordance with paragraph 2, any statement prepared in accordance with paragraph 4 or (as the case may be) of the latest revision of the relevant statement in accordance with paragraph 5 approved by the Authority pursuant to such paragraph and of each statement prepared in accordance with paragraphs 6 and 7 to any person who requests a copy of such statement.
 10. The licensee shall also give or send a copy of each statement prepared in accordance with paragraphs 3(a) and 8 of Special Condition D (Requirement to Offer Terms) to any person who requests a copy of such statement.
 11. The licensee may make a charge for any statement given or sent pursuant to paragraph 9 of an amount reflecting the licensee's reasonable costs of providing such a statement which shall not exceed the maximum amount specified in directions issued by the Authority for the purposes of this Condition.

12. The licensee may within 10 days after receipt of the relevant request provide an estimate of its reasonable costs in the preparation of any statement referred to in paragraph 10, and its obligation to provide such statement shall be conditional on the person requesting such statement agreeing to pay the amount estimated or such other amount as the Authority may, upon the application of the licensee or the person requesting such statement, direct.
13. For the purposes of determining an appropriate proportion of the licensee's Scottish interconnection costs as referred to in paragraph 1, the licensee shall have regard to:
 - (a) the amount of the export quantities of electricity and/or import quantities of electricity, and the proportion of the licensee's share of the Scottish interconnection capacity, in respect of which use of the licensee's share of the Scottish interconnection is granted by the licensee;
 - (b) the duration of the relevant agreement; and
 - (c) such other matters (if any) as the Authority shall specify from time to time.
14. For the purposes of this Condition and Special Conditions C (Non-discrimination in the provision of use of the Scottish Interconnection), D (Requirement to Offer Terms), E (Functions of the Authority) and G (Requests for Transit):

"Combined Delivery Point" means the points at the boundary between the licensee's authorised transmission area and SP Transmission Limited's authorised transmission area defined as such in the Interconnector Agreement.

"co-operator" means any person other than the licensee who owns assets which are used in conjunction with the interconnection or who is able to exercise jointly with another person control over the use made of the interconnection.

"export quantities of electricity" means quantities of electricity provided by or on behalf of a person making an application under paragraph 1 of Special

Condition D (Requirement to Offer Terms) at an entry point on the licensee's system (other than the Combined Delivery Point) and delivered (less any losses) to the Combined Delivery Point under an agreement for use of system entered into pursuant to an application made by the person under paragraph 1 of standard condition D 8B (Requirement to Offer Terms).

"import quantities of electricity"

means quantities of electricity provided by or on behalf of a person making an application under paragraph 1 of Special Condition D (Requirement to Offer Terms) at an entry point on the transmission company's transmission system and delivered (less any transmission losses) to the Southern Delivery Point under an agreement for use of system and/or an agreement for use of interconnectors entered into pursuant to an application made by the person under the licence granted to the transmission company under Section 6(1)(b) of the Act or pursuant to any related document (as defined in paragraph 8 of Special Condition C (Non-discrimination in the provision of use of the Scottish Interconnection)).

"Interconnector Agreement"

means at any time the agreement relating to the matter referred to in sub-paragraph (a) of paragraph 2 of Special Condition F (Submission of Certain Agreements) in force at that time which has been entered

	into and submitted to the Authority pursuant to that Condition, as the same may be amended from time to time with the approval of the Authority given pursuant to such Condition.
"the licensee's Scottish interconnection costs"	shall mean the charges defined as the Annual Fixed Charge and the Capacity Charge in the Interconnector Agreement which are payable by the licensee to SP Transmission Limited pursuant to the Interconnector Agreement.
"Particular Interconnection Capacity"	means the capacity of the interconnection for transferring electricity from Scotland to England or vice versa in respect of any particular system conditions.
"Southern Delivery Point"	means the points at the boundary between SP Transmission Limited authorised transmission area and the transmission company's authorised transmission area defined as such in the Interconnector Agreement.
"Transmission Company"	means The National Grid Company plc or any other person who holds a transmission licence under Section 6(1)(b) of the Act for an authorised area in England and Wales.
"Upgrade"	means any alteration, modification or addition to the Interconnected Scottish Power System (as defined in the Interconnector Agreement) which is primarily designed to effect a permanent increase in one or more Particular Interconnection Capacities as more particularly defined in the Interconnector

Agreement.

"use of the licensee's share of the Scottish interconnection"

shall mean the exercise by the licensee of the rights conferred upon it under the Interconnector Agreement to require SP Transmission Limited:

- (a) to receive electricity from the licensee at the Combined Delivery Point and deliver such electricity (less losses as referred to in the Interconnector Agreement) to the transmission company at the Southern Delivery Point; and/or
- (b) to receive electricity from the transmission company at the Southern Delivery Point and deliver such electricity (less losses as referred to in the Interconnector Agreement) to the Licensee at the Combined Delivery Point; and
- (c) any reference to "charges for use of the licensee's share of the Scottish Interconnection" shall be to charges payable by persons other than the licensee in respect of the licensee exercising such rights to require SP Transmission Limited to receive and deliver electricity provided by or on behalf of such persons and cognate expressions shall be construed accordingly.

Special Condition C: Non-discrimination in the provision of use of the Scottish interconnection

1. In the provision of use of the licensee's share of the Scottish interconnection the licensee shall not discriminate:
 - (a) between any person or class or classes of persons; or
 - (b) between any affiliate of the licensee which holds a supply licence or a generation licence and any person or class or classes of persons.
2. Without prejudice to paragraph 1, the licensee shall not make or provide, or offer to make or provide, an agreement for use of the licensee's share of the Scottish interconnection to any person or class or classes of persons on terms as to price which are materially more or less favorable than those on which it makes, provides or offers to make or provide an agreement for use of the licensee's share of the Scottish interconnection to any other comparable person or class of persons.

For those purposes, due regard shall be had to the circumstances in which such agreement is made or provided or offered to be made or provided, including volumes, conditions of interruptibility, and the date and duration of the agreement.
3. Notwithstanding paragraphs 1 and 2, the licensee shall not make charges for use of the licensee's share of the Scottish interconnection in respect of any item of charge separately identified in the statement referred to at paragraphs 2 and 4 of Special Condition B (Basis of Charges for use of the Scottish Interconnection) on any person whose contract does not provide for it to receive the service to which such item of charge refers.
4. The licensee shall not in setting its charges for use of the licensee's share of the Scottish interconnection restrict, distort or prevent competition in the transmission, supply, distribution or generation of electricity.
5. The licensee shall:
 - (a) comply with and perform its obligations under the Interconnector Agreement;
 - (b) exercise its rights and perform its obligations under the Interconnector Agreement in a manner which is designed to facilitate the carrying out of Upgrades proposed by SP Transmission Limited pursuant to the

Interconnector Agreement (but, for the avoidance of doubt, so that the licensee shall have no obligation to participate in any Upgrade proposed by SP Transmission Limited);

- (c) not exercise or perform such rights or obligations in a manner which is designed to have the effect of inhibiting or preventing competition in the supply of electricity from Scotland to England or from England to Scotland;

and

- (d) not exercise or perform its rights or obligations under any related document in a manner which is designed to have the effect referred to in sub-paragraph (c) above.

6. The licensee shall not be in breach of this Condition or Special Conditions B (Basis of Charges for use of the Scottish Interconnection), D (Requirement to Offer Terms) or E (Functions of the Authority) by reason only of a failure to do or not do any thing which it is prevented from doing or not doing by reason of a failure by SP Transmission Limited to comply with and perform its obligations under the Interconnector Agreement or by a party to a related document or a person who is obliged to comply with a related document to comply with and perform its obligations under the related document in question.

7. The licensee shall keep and maintain such records concerning the provision of use of the licensee's share of the Scottish interconnection as are, in the opinion of the Authority, sufficient to enable the Authority to assess whether the licensee is performing its obligations under paragraph 1 and the licensee shall furnish to the Authority such records (or such of these as the Authority may require), in such manner and at such times as the Authority may require.

8. In this Condition:

"related document" means any agreement, code, rules, or arrangement relating to the use of the E&W interconnection for the time being in force and to which the licensee is a party or with which the licensee is obliged to comply.

"E&W interconnection"	means such part of the interconnection as is not situated in Scotland
"generation licence"	means a licence granted under Section 6(1)(a) of the Act.
"supply licence"	means a licence granted under Section 6(1)(d) of the Act.

Special Condition D: Requirement to offer terms

1. On application made by any person, the licensee shall (except in a case where paragraph 2 applies and subject to paragraph 7) offer to enter into an agreement for use of the licensee's share of the Scottish interconnection:
 - (a) under which the licensee undertakes to require SP Transmission Limited:
 - (i) to accept delivery of such export quantities of electricity as may be specified in the application into SP Transmission Limited transmission system at the Combined Delivery Point; and
 - (ii) to deliver such export quantities of electricity (less losses as referred to in the Interconnector Agreement) to the Southern Delivery Point;and/or
 - (iii) to accept delivery of such import quantities of electricity as may be specified in the application into SP Transmission Limited's transmission system at the Southern Delivery Point; and
 - (iv) to deliver such import quantities of electricity (less losses as referred to in the Interconnector Agreement) to the Combined Delivery Point;
 - (b) specifying the charges for use of the licensee's share of the Scottish interconnection to be paid by the person seeking use of the licensee's share of the Scottish interconnection, such charges to be referable to the statement referred to at paragraph 2 or (as the case may be) paragraph 4 of Special Condition B (Basis of Charges for use of the Scottish Interconnection) or any revision thereof; and
 - (c) containing such further terms as are or may be appropriate for the purposes of the agreement.
2. This paragraph applies in any case where, on the application of the licensee or any person entitled or claiming to be entitled to an offer pursuant to an application under paragraph 1, the Authority shall determine that (having regard to the part of the licensee's share of the Scottish interconnection capacity already contracted to persons other than affiliates and related undertakings of the licensee and the part

thereof approved by the Authority as being reserved to affiliates and related undertakings of the licensee) the licensee's share of the Scottish interconnection capacity is insufficient to accommodate the requirements of the person who has made application for an offer pursuant to paragraph 1.

3. In a case where paragraph 2 applies:
 - (a) the licensee shall (subject to paragraph 12 of Special Condition B (Basis of Charges for use of the Scottish Interconnection)), if requested by the person who has made application for an offer pursuant to paragraph 1 and within such period as the Authority shall specify in its determination under paragraph 2, prepare a statement approved by the Authority setting out the basis upon which charges will be made for the costs which the licensee would incur if an Upgrade were to be carried out in accordance with the Interconnector Agreement to accommodate the requirements of the person who has made the application for an offer pursuant to paragraph 1, such statement to be in such form and to contain such detail as shall be necessary to enable such person to make a reasonable estimate of the charges to which he would become liable in respect of the Upgrade; and
 - (b) following the preparation of a statement under sub-paragraph (a) above, the licensee shall on the application of the person who has made the application for an offer pursuant to paragraph 1, offer to enter into:
 - (i) an agreement pursuant to which the licensee undertakes to exercise its rights under the Interconnector Agreement to require the carrying out of an Upgrade; and
 - (ii) an agreement such as is referred to in paragraph 1, but so that the licensee shall not be bound to make use of the Scottish interconnection available pursuant to such agreement until the time of completion of the Upgrade.
4. Charges in respect of Upgrades carried out pursuant to an agreement such as is referred to in sub-paragraph (b)(i) of paragraph 3 will be set at a level which will enable the licensee to recover:
 - (a) the appropriate proportion of the costs directly incurred by the licensee in connection with Upgrades; and

- (b) a reasonable rate of return on the capital represented by such costs.
- 5. For the purpose of determining an appropriate proportion of the costs directly incurred in connection with an Upgrade, the licensee shall have regard to:
 - (a) the benefit (if any) to be obtained or likely in the future to be obtained by the licensee or any other person from the increase in the capacity of the Scottish interconnection resulting from the Upgrade; and
 - (b) the ability or likely future ability of the licensee to recoup a proportion of such costs from third parties.
- 6. The licensee shall offer terms for agreements in accordance with paragraph 1 and paragraph 3(b) as soon as practicable and (save where the Authority consents to a longer period) in any event not more than the period specified in paragraph 9 after receipt by the licensee of an application containing all such information as the licensee may reasonably require for the purpose of formulating the terms of the offer.
- 7. The licensee shall not be obliged pursuant to this Condition to offer to enter or to enter into any agreement:
 - (a) if to do so would involve the licensee:
 - (i) in breach of its duties under Section 9 of the Act; or
 - (ii) in breach of the Electricity Supply Regulations 1988 or of any regulations made under Section 29 of the Act or of any other enactment relating to safety or standards applicable to the interconnection; or
 - (iii) in breach of the standard conditions or Special Conditions of this licence; or
 - (b) if the person making the application does not undertake to be bound by the terms of any code of general application or agreement between the licensee and any co-operator of the interconnection governing the operation of and maintenance of the interconnection approved for the time being by the Authority.
- 8. If so requested by any person, the licensee shall (subject to paragraph 12 of Special Condition B (Basis of Charges for use of the Scottish Interconnection)), as

soon as practicable and in any event not later than the expiry of such period as the Authority, on the application of the person making the request, shall determine for this purpose, give or send to such person a statement approved by the Authority setting out the basis upon which charges will be made for the costs which the licensee would incur if an Upgrade were to be carried out in accordance with the Interconnector Agreement to accommodate the requirements of such person as specified in the request, such statement to be in such form and to contain such detail as shall be necessary to enable such person to make a reasonable estimate of the charges to which it would become liable in respect of the Upgrade.

9. For the purpose of paragraph 1, the period specified shall be 28 days. For the purpose of paragraph 3(b), the period specified shall be 3 months.
10. The licensee shall within 28 days following receipt of a request from any person, give or send to such person such information in the possession of the licensee as may be reasonably required by such person for the purpose of completing paragraph 8 of Part 1 and paragraphs 2(v) and (vi) of Part 2 of Schedule 2 to the Electricity (Application for Licences and Extensions of Licences) Regulations 1990 or such provisions to like effect contained in any further regulations then in force made pursuant to Sections 6A(2), 60 and 64(1) of the Act.

Special Condition E: Functions of the Authority

1. If, after a period which appears to the Authority to be reasonable for the purpose the licensee has failed to enter into an agreement with any person entitled or claiming to be entitled thereto pursuant to a request under Special Condition D (Requirement to Offer Terms) the Authority may, and on the application of such person or the licensee, settle any terms of the agreement in dispute between the licensee and that person in such manner as appears to the Authority to be reasonable having (insofar as relevant) regard in particular to the following considerations:
 - (a) that such person should pay to the licensee charges determined in accordance with Special Conditions B (Basis of Charges for use of the Scottish Interconnection), C (Non-discrimination of the provision of use of the Scottish Interconnection) and D (Requirement to Offer Terms); and
 - (b) that the performance by the licensee of its obligations under the agreement should not involve it in such a breach as is referred to in paragraph 7 of Special Condition D (Requirement to Offer Terms);
 - (c) that the obligations of the licensee under the agreement should not be in conflict with the provisions of the Interconnector Agreement or any relevant document for the time being approved by the Authority; and
 - (d) that the terms and conditions of the agreement so settled by the Authority and of any other agreements entered into by the licensee pursuant to a request under Special Condition D (Requirement to Offer Terms) should be, so far as circumstances allow, in as similar a form as is practicable.
2. If the person wishes to proceed on the basis of the agreement as settled by the Authority, the licensee shall forthwith enter into and implement such agreement in accordance with its terms.
3. If the licensee proposes to vary the contractual terms of any agreement entered into pursuant to Special Condition D (Requirement to Offer Terms) or this Condition in any manner provided for under such agreement, the Authority may, at the request of the licensee or other party to such agreement, settle any dispute relating to such variation in such manner as appears to the Authority to be reasonable.

Special Condition F: Submission of certain agreements

1. The licensee shall not make an amendment to a specified agreement or enter into any agreement which amends a specified agreement except with the prior written approval of the Authority.

2. For the purposes of this Condition:

"specified agreements"

means agreements relating to the following matters, namely:

- (a) the provision by Scottish Power Transmission Limited to the licensee of a share (initially 46%) of the export and import capacity of the Interconnector with England and Wales (after deduction of an allowance for the share of such capacity dedicated to the existing agreement between South of Scotland Electricity Board and British Nuclear Fuels plc relative to the transmission of output from Chapelcross Power Station); and
- (b) operational provisions for the implementation of all or some of the agreements relating to the matters referred to in (a) above; provisions supporting the co-ordination, planning and operation of an electricity supply system within Scotland; an operational basis to support trading relationships between Scottish Power Generation Limited and the licensee and/or between either of them and any third party and/or

between third parties using the electricity transmission systems in Scotland; and a framework for accommodating generators of electricity using the electricity transmission system of SP Transmission Limited and the licensee.

"amendment"

in relation to any agreement shall (without limiting the generality) include the making, entering into and granting of:

- (a) any agreement which terminates, extends the duration of, varies or has the effect of affecting in any other way any right and/or obligation (or the enforceability of any right and/or obligation) of any person under the first mentioned agreement; and
- (b) any waiver or purported waiver (whether or not constituted or evidenced by any written document, and whether express, implied or otherwise) of any right of any person under that agreement.

"agreement"

includes any contract or arrangement (whether or not constituted or evidenced by any written document).

Special Condition G: Requests for Transit

1. In this Condition:

- "entity" means any of the entities referred to in Article 3.1 of the Directive of the Council of the European Communities, dated 29th October 1990, (No.90/547/EEC) on the transit of electricity through transmission grids ("the Directive").
- "grid" means any high-voltage electricity transmission grid for the time being listed in the Annexe to the Directive.
- "Member State" means a Member State of the European Union.
- "transit" means a transaction for the transport of electricity between grids where:
- (a) the grid of origin or final destination is situated in a Member State; and
 - (b) the transport involves:
 - (i) the crossing of at least one frontier between Member States; and
 - (ii) the use of the licensee's transmission system and at least two other grids.

2. The licensee shall, after receiving in connection with transit for a minimum duration of one year an application by an entity for an agreement for:

- (a) use of system;
- (b) connection to the licensee's transmission system or modification to an existing connection; or
- (c) use of the licensee's share of Scottish interconnection,
- (d) notify the Secretary of State, the Authority and the European Commission

without delay of the matters set out in paragraph 3 below.

3. The matters of which notification must be given are:
 - (a) the application;
 - (b) if an agreement has not been concluded within 12 months of the date of receipt of the application, the reasons for the failure to conclude it;
 - (c) the conclusion of the agreement, whether it is concluded before or after the expiry of the period mentioned in sub-paragraph (b) above.
4. If, in relation to an application for transit by any entity, the Authority has been requested to exercise its powers under standard condition D8C (Functions of the Authority) or Special Condition E (Functions of the Authority), the Authority may delay the exercise of its said powers until the terms have been considered by the body set up under Article 3.4 of the Directive and the Authority may give such weight to the opinion (if any) of that body as it thinks fit in exercising its said powers.

Special Condition H: Transmission System Security Standard and Quality of Service (Scotland)

1. The licensee shall:
 - (a) plan and develop its transmission system in accordance with the document entitled NSHEB Planning Document TM9001 (Transmission Planning Standard of Security) (such document being as submitted by or on behalf of the licensee to the Authority on or before the date of grant of this licence or such later date as the Authority shall agree), as appropriate to the purpose under consideration, and the Grid Code or such other standard of planning as the licensee may, following consultation with any authorised electricity operator liable to be materially affected thereby and with the approval of the Authority, adopt from time to time; and
 - (b) operate its transmission system in accordance with the document entitled NSHEB System Operation Memorandum No 3 (as submitted by or on behalf of the licensee to the Authority on or before the date of grant of this licence or such later date as the Authority shall agree), as appropriate to the purpose under consideration and the Grid Code or such other standard of operation as the licensee may, following consultation with any authorised electricity operator liable to be materially affected thereby and with the approval of the Authority, adopt from time to time.
2. The licensee shall, in consultation with authorised electricity operators liable to be materially affected thereby, review the documents (other than the Grid Code) referred to in paragraph 1 and their implementation on each occasion that it carries out a review of the Grid Code in accordance with paragraph 2 of standard condition 7 (Licensee's Grid Code). Following any such review, the licensee shall send to the Authority:
 - (a) a report on the outcome of such review; and
 - (b) any revision which the licensee proposes to make to such documents from time to time (having regard to the outcome of such review); and
 - (c) any written representations or objections from authorised electricity operators (including any proposals by such operators for revisions to such documents not accepted by the licensee in the course of the review) arising

during the consultation process and subsequently maintained.

3. Revisions to the documents (other than the Grid Code) referred to in paragraph 1 proposed by the licensee and sent to the Authority pursuant to paragraph 2 shall require to be approved by the Authority.
4. Having regard to any written representations or objections referred to in subparagraph (c) of paragraph 2, and following such further consultation (if any) as the Authority may consider appropriate, the Authority may issue directions requiring the licensee to revise the documents (other than the Grid Code) referred to in paragraph 1 in such manner as may be specified in the directions, and the licensee shall forthwith comply with any such directions.
5. The licensee shall within 3 months after the transmission licence comes into force draw up and submit to the Authority for its approval a statement setting out criteria by which the performance of the licensee in maintaining transmission system security and availability and quality of service may be measured.
6. The licensee shall within 2 months after the end of each financial year submit to the Authority a report providing details of the performance of the licensee during the previous financial year against the criteria referred to in paragraph 5.
7. The Authority may (following consultation with the licensee and, where appropriate, any relevant authorised electricity operator) issue directions relieving the licensee of its obligations under paragraph 1 in respect of such parts of the licensee's transmission system and to such extent as may be specified in the directions.
8. The licensee shall give or send a copy of the documents (other than the Grid Code) referred to in paragraph 1 (as from time to time revised) to the Authority.
9. The licensee shall (subject to paragraph 10) give or send a copy of such documents (as from time to time revised) to any person requesting the same.
10. The licensee may make a charge for any copy given or sent pursuant to paragraph 9 of an amount which will not exceed any amount specified for the time being for the purposes of this condition in a direction issued by the Authority.

Special Condition I: Definitions

In this condition and in Special Conditions J to N and Schedule A:

"average charge per regulated unit transmitted"	means the regulated transmission revenue in the relevant year divided by the regulated quantity transmitted in that year.
"average specified rate"	means the average of the daily base rates of Governor and Company of the Bank of Scotland (or such other bank as the Authority shall specify from time to time) current from time to time during the period in respect of which the calculation falls to be made.
" charge restriction conditions"	means Special Conditions I to N inclusive together with Schedule A to this licence, as from time to time modified or replaced in accordance with the provisions of the Act.
"excluded services"	means those services provided as part of the transmission business which in accordance with the principles set out in Part A of Schedule A fall to be treated as excluded services.
"maximum average charge per regulated unit transmitted"	means the maximum average charge per regulated unit transmitted by the licensee for relevant year commencing on 1 April 1999 calculated with the formula in paragraph 2.1 of the Schedule 5 of the version of the licence in force (or deemed to be in force) as at 31 March 2000.
"maximum regulated transmission revenue"	means the regulated transmission revenue of the licensee calculated in accordance with the formula contained in Special Condition J (Restriction of Transmission Charges).

"metered"	means in relation to any quantity transmitted, as measured by a meter installed for such purpose or (where no such meter is installed) as otherwise reasonably calculated.
"notified value"	means, in relation to any term, such value as the Secretary of State shall ascribe to that term in a written notice given to the licensee as soon as practicable after the date of grant of this licence.
"regulated quantity transmitted"	means the aggregate quantity of units transmitted through the licensee's transmission system in that relevant year metered at exit points on leaving the licensee's transmission system.
"regulated transmission revenue"	means the revenue (measured on an accruals basis) derived from the provision of transmission services (including to any separate business, other than the transmission business) in the relevant year, after deduction of value added tax (if any) and any other taxes based directly on the amounts so derived.
"regulated unit transmitted"	means any unit within the regulated quantity transmitted.
"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 or, in respect of the period prior to 1 April 1990, the period of 12 calendar months commencing on 1 April 1989; and similar

expressions shall be construed accordingly.

"transmission services"

means all services provided as part of the transmission business other than excluded services.

"unit"

means a kilowatt hour.

Special Condition J: Restriction of transmission charges

Basic Formula

1. Without prejudice to Special Condition M (Allowance in respect of security costs), the licensee shall in setting its charges for the provision of transmission services use its best endeavours to secure that in any relevant year the regulated transmission revenue shall not exceed the maximum regulated transmission revenue calculated in accordance with the following formula:

$$TR_t = R_t - KK_{Tt} + LF_t$$

where:

TR_t means the maximum regulated transmission revenue in relevant year t; and

R_t in relation to the relevant year commencing 1 April 2000, shall have a value equal to £49.15 million and in relation to any subsequent relevant year the value of it shall be derived from the following formula:

$$R_t = R_{t-1} \left[1 + \frac{RPI_t - X_T}{100} \right]$$

100

where

RPI_t means the percentage change (whether of a positive or a negative value) in the arithmetic average of the Retail Price Index figures published or determined with respect to each of the six months July to December (inclusive) in relevant year t-1 and the arithmetic average of the Retail Price Index figures published or determined with respect to the same months in relevant year t-2.

X_T means 0.

KK_{Tt} means the correction factor (whether of a positive or negative value) to be applied to the regulated transmission revenue in relevant year t (subject to Special Condition K (Restriction of transmission charges: adjustments), paragraph 3) which factor is to be derived as follows:

(a) in the relevant year commencing 1 April 2000:

$$KK_{Tt} = \frac{Q_{t-1}}{100} \times (C_{t-1} - T_{t-1}) \times \left(1 + \frac{IR_t}{100}\right)$$

where

C_{t-1} means the average charge per regulated unit transmitted in relevant year commencing 1 April 1999.

IR_t means that interest rate which is equal to, where KK_{Tt} in relevant year commencing 1 April 2000 (taking no account of IR for this purpose) has a positive value and C_{t-1} exceeds T_{t-1} by more than 2 per cent, the average specified rate plus 4 or, where KK_{Tt} in that relevant year commencing 1 April 2000 (taking no account of IR for this purpose) has a negative value and C_{t-1} does not exceed T_{t-1} by more than 2 per cent, the average specified rate.

Q_{t-1} has the value 12,066 (which represents the regulated quantity transmitted (expressed in GWh) by the licensee in relevant year commencing 1 April 1999).

T_{t-1} means the maximum average charge per regulated unit transmitted in relevant year commencing 1 April 1999; as determined in accordance with Schedule 5 of the form of SSE's transmission licence in force as at 31 March 2000; and

(b) in subsequent relevant years KK_{Dt} is to be derived from the following formula:

$$KK_{Dt} = (CR_{t-1} - TR_{t-1}) \left(1 + \frac{I_t}{100}\right)$$

where:

CR_{t-1} means the regulated transmission revenue in relevant year t-1.

TR_{t-1} means the maximum regulated transmission revenue in relevant year t-1.

I_t means that interest rate in relevant year t which is equal to, where KK_{Tt} (taking no account of I for this purpose) has a positive value and CR_{t-1} exceeds TR_{t-1} by more than 2 per cent, the average specified rate plus 4 or, where KK_{Tt} (taking no account of I for this purpose) has a negative value and CR_{t-1} does not exceed TR_{t-1} by more than 2 per cent, the average specified rate.

LF_t for the tenth and preceding years shall be zero and in the eleventh and for any subsequent relevant year, is derived from the following formula:

$$LF_t = LP_t - LA_t$$

where:

LP_t means an amount equal to the payments made by the licensee, in the relevant year t, in accordance with its obligations set out in Standard Licence Condition 4 or, in respect of the eleventh relevant year, payments attributed to the transmission business of the predecessor company of the licence holder in respect of payments made to the Director General of Electricity Supply under the licence condition entitled 'Payment of fees' in the Generation, Transmission and Public Electricity Supply Licence of the predecessor company.

LA_t is derived from the following formula:

$$LA_t = PF_t \cdot PIF_t$$

PF_t means, in respect of each relevant year, the amount given in the table appearing under that term in the part of Annex A to this Condition that applies to the licensee.

PIF_t is derived from the following formula:

$$PIF_t = \left(1 + \frac{RPI_t}{100}\right) PIF_{t-1}$$

where for the ninth relevant year PIF_{t-1} equals 1.

ANNEX A TO SPECIAL CONDITION J (RESTRICTION OF TRANSMISSION CHARGES)

SP TRANSMISSION LIMITED

PF_t

2000/01	£0.290 millions
2001/02	£0.284 millions
2002/03	£0.276 millions
2003/04	£0.270 millions
2004/05	£0.262 millions
subsequent relevant years	£0.262 millions

SCOTTISH HYDRO-ELECTRIC TRANSMISSION LIMITED

PF_t

2000/01	£0.093 millions
2001/02	£0.091 millions
2002/03	£0.087 millions
2003/04	£0.085 millions
2004/05	£0.084 millions
subsequent relevant years	£0.084 millions

Special Condition K: Restriction of transmission charges: adjustments

1. If, in respect of any relevant year, the regulated transmission revenue exceeds the maximum regulated transmission revenue by more than 3 per cent of the latter, the licensee shall furnish an explanation to the Authority and in the next following relevant year the licensee shall not effect any increase in charges for the provision of transmission services, the revenue from which is regulated under Special Conditions I to N, unless it has demonstrated to the reasonable satisfaction of the Authority that the regulated transmission revenue in that next following relevant year would not be likely to exceed the maximum regulated transmission revenue in that same relevant year.
2. If, in respect of any two successive relevant years, the sum of the amounts by which the regulated transmission revenue has exceeded the maximum regulated transmission revenue is more than 4 per cent of the maximum regulated transmission revenue for the second of these relevant years, then in the next following relevant year the licensee shall, if required by the Authority, adjust its charges for the provision of transmission services, the revenue from which it is regulated under Special Conditions I to N, such that the regulated transmission revenue would not be likely, in the judgment of the Authority, to exceed the maximum regulated transmission revenue in that next following relevant year.
3. If, in respect of any two successive relevant years, the regulated transmission revenue is less than 90 per cent of the maximum regulated transmission revenue, the Authority, after consultation with the licensee, may direct that in calculating KK_{Tt} in respect of the next following relevant year, there shall be substituted for CR_{t-1} in the formula set out in paragraph 1 of Special Condition J (Restriction of transmission charges) such figure as the Authority may specify being not less than CR_{t-1} and not more than $0.90 (TR_{t-1})$.

Special Condition L: Information to be provided to the Authority in connection with the charge restriction conditions

1. Where the licensee is intending to make any change in charges for the provision of transmission services regulated under Special Condition J (Restriction of transmission charges), the licensee shall not later than the time of publication of such changes provide the Authority with:
 - (i) a written forecast of the maximum regulated transmission revenue, together with its components, in respect of the relevant year t in which such a change is to take effect and in respect of the next following relevant year $t+1$; and
 - (ii) a written estimate of the maximum regulated transmission revenue, together with its components, in respect of the relevant year $t-1$ immediately preceding the relevant year in which the change is to take effect unless a statement complying with paragraph 5 in respect of relevant year $t-1$ has been furnished to the Authority before the publication of the proposed change.
2. If within three months of the commencement of any relevant year t the licensee has not made any such change in charges as is referred to in paragraph 1, the licensee shall provide the Authority with a written forecast of the maximum regulated transmission revenue together with its components, in respect of relevant year t .
3. Any forecast or estimate provided in accordance with paragraph 1 or 2 shall be accompanied by such information as regards the assumptions underlying the forecast or estimate as may be necessary to enable the Authority to be satisfied that the forecast or estimate has been properly prepared on a consistent basis.
4. Not later than six weeks after the commencement of each relevant year t , the licensee shall send to the Authority a statement as to:
 - (a) whether or not the provisions of Special Condition K (Restriction of transmission charges: adjustments) are likely to be applicable in consequence of the regulated transmission revenue in the preceding relevant year $t-1$ or the two preceding relevant years $t-1$ and $t-2$; and
 - (b) its best estimate as to the relevant correction factor KK_{Tt} calculated in

accordance with the formula set out in Special Condition J (Restriction of transmission charges) to be applied in calculating the maximum regulated transmission revenue in respect of relevant year t.

5. Not later than three months after the end of each relevant year the licensee shall send to the Authority a statement, in respect of that relevant year, showing the specified items referred to in paragraph 7.
6. The statement referred to in the preceding paragraph shall be:
 - (a) accompanied by a report from the Auditors that in their opinion such statement fairly presents each of the specified items referred to in paragraph 7 in accordance with the requirements of the charge restriction conditions and that the amounts shown in respect of each of the specified items are in accordance with the licensee's accounting records which have been maintained in respect of the transmission business in accordance with standard condition 5 (Regulatory Accounts); and
 - (b) certified by a director of the licensee on behalf of the licensee that to the best of his knowledge, information and belief, after having made all reasonable inquiries,
 - (i) there is no amount included in its calculations under Special Condition J (Restriction of transmission charges) and Schedule A which represents other than bona fide consideration for the provision of transmission services the revenue from which is regulated under Special Conditions I to N and Schedule A;
 - (ii) no service has been treated as an excluded service other than a service permitted to be so treated in accordance with Schedule A; and
 - (iii) no amount included in the revenues stated in respect of excluded services represents other than bona fide consideration for the provision of the excluded service to which it relates.
7. The specified items to be shown in the statement referred to in paragraph 5 shall be the following:
 - (a) the regulated quantity transmitted;

- (b) [no longer used]
 - (c) the regulated transmission revenue;
 - (d) the nature of all services provided as part of the transmission business and treated as excluded services, together with a statement of the revenues derived from each service so treated;
 - (e) [no longer used]
 - (f) [no longer used]
 - (g) the details referred to in paragraph 5 of Special Condition M (Allowances in respect of security costs); and
 - (h) the value of the term LF_t together with the value of each of its component parts, as detailed in paragraph 1 of special condition J (Restriction of transmission charges);
 - (h) such other items as shall be specified in directions issued by the Authority for the purposes of Special Conditions I to N .
8. Where the Authority issues directions in accordance with paragraph 6 of Special Condition M (Allowances in respect of security costs) or paragraph 7 of Schedule A (Supplementary Provisions of the Charge Restriction Conditions), the licensee shall, if so required by the Authority and within such a period as the Authority shall specify, send to the Authority a revised statement in substitution for the licensee's statement under paragraph 5 in respect of the relevant year in question and such revised statement shall give effect to such directions.

Special Condition M. Allowances in respect of security costs

1. At any time during a security period, the licensee may give notice in writing to the Authority suspending, with effect from the date of receipt of the notice by the Authority, application of such of the charge restriction conditions as may be specified in the notice, for the unexpired term of the security period.
2. At any time during a security period, the Authority may (having regard to its duties under the Act) by means of directions:
 - (a) suspend or modify for the unexpired term of the security period the charge restriction conditions or any part or parts thereof; or
 - (b) introduce for the unexpired term of the security period new charge restriction conditions;

in either case, so as to make such provision as in the opinion or estimation of the Authority is requisite or appropriate to enable the licensee to recover by means of a uniform percentage increase on all charges made in the course of the licence an amount estimated as being equal to the licensee's allowed security costs during such period and the licensee shall comply with the terms of any directions so issued.

3. Subject to paragraphs 4 and 6 the licensee shall in any relevant year be entitled to recover an aggregate amount equal to the licensee's allowed security costs in that year or (in so far as not previously recovered) any previous year, by means of appropriate equitable increases in the charges made by the licensee in the course of the transmission business.
4. Paragraph 3 shall not apply in so far as such licensee's allowed security costs:
 - (a) were otherwise recovered by the licensee; or
 - (b) were taken into account in setting the charge restriction conditions by means of directions issued under paragraph 2.
5. The licensee shall following the end of the each relevant year provide to the Authority details in respect of that relevant year of:
 - (a) the aggregate amounts charged under paragraph 3 on account of the licensee's allowed security costs; and
 - (b) the basis and calculation underlying the increase in charges made by the

licensee in the course of the transmission business.

6. Where the Authority is satisfied that the licensee has recovered amounts in excess of the licensee's allowed security costs, the Authority may issue directions requiring the licensee to take such steps as may be specified to reimburse customers of the licence for the excess amounts charged to them and the licensee shall comply with any directions so issued.
7. No amounts charged by the licensee under this Condition (whether or not subsequently required to be reimbursed) shall be taken into account for the purposes of applying the charge restriction provision of Special Condition J (Restriction of transmission charges).

8. In this Condition:

"allowed security cost"

means any cost allowed by the Authority (upon receipt of such information including a certificate from the auditors, as the Authority may request) as being a cost which is directly attributable to any action taken or omitted to be taken by the licensee in its capacity as holder of the licence for the purposes of complying with directions issued by the Secretary of State under Section 34(4) of the Act;

"security period"

means a period commencing on the date on which any direction issued by the Secretary of State under Section 34(4)(b) of the Act enters effect and terminating on the date (being not earlier than the date such direction, as varied, is revoked or expires) as the Authority, after consultation with such persons (including without limitation, licence holders liable to be principally affected) as it shall consider appropriate, may with the consent of the Secretary of State by notice to all licence holders determine after having regard to the

views of such persons.

Special Condition N: Duration of charge restriction conditions

1. The charge restriction conditions shall apply so long as this licence continues in force but 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 2 and:
 - (a) the Authority agrees in writing to the disapplication request; or
 - (b) their application (in whole or in part) is terminated by notice given by the licensee in accordance with either paragraph 4 or paragraph 5.
2. A disapplication request pursuant to this Condition shall
 - (a) be in writing addressed to the Authority;
 - (b) specify the charge restriction conditions (or any part or parts thereof) to which the request relates; and
 - (c) state the date from which the licensee wishes the Authority to agree that the specified charge restriction conditions shall cease to have effect.
3. Save where the Authority otherwise agrees, no disapplication following delivery of a disapplication request pursuant to this Condition shall have effect earlier than the date which is the later of:
 - (a) the date being not less than 18 months after delivery of the disapplication request; and,
 - (b) 31 March 2005.
4. If the Authority has not made a reference to the Competition Commission under Section 12 of the Act relating to the modification of the charge restriction conditions 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 of the charge restriction conditions (or any part or parts thereof) as are specified in the disapplication request with effect from the disapplication date or a later date.
5. If the Competition Commission makes a report on a reference made by the Authority relating to the modification of the charge restriction conditions (or any part or parts thereof) specified in the disapplication request and such report does not include a conclusion that the cessation of such transmission charge restriction

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 it written notice terminating the application of such charge restriction conditions (or any part or parts thereof) with effect from the disapplication date or a later date.

SCHEDULE A. Supplementary Provisions of the Charge Restriction Conditions

Part A: Excluded services

- 1 There may be treated as excluded services provided by the transmission business such services in respect of which charges are made:
 - (a) which fall within paragraph 6; or
 - (b) which:
 - (i) do not fall within paragraph 2; and
 - (ii) may be determined by the licensee as falling under one of the principles set out in paragraphs 3 to 5.

- 2 No service provided as part of the transmission business shall be treated as an excluded service in so far as it relates to the provision of services remunerated under use of system charges in accordance with Condition D8 of Part II (Basis of Charges for Use of System and Connection to System: Requirement for Transparency) including (without prejudice to the foregoing):
 - (i) the transport of electricity;
 - (ii) the carrying out of works for the installation of electric lines or electrical plant (not otherwise payable in the form of connection charges) for the purpose of maintaining or upgrading the licensee's transmission system;
 - (iii) the carrying out of works or the provision of maintenance or repair or other services for the purpose of enabling the licensee to comply with standard condition 7 (Licensee's Grid Code) and Special Condition H (Transmission System Security Standard and Quality of Service(Scotland)), the Electricity Supply Regulations 1988 or any regulations made under Section 29 of the Act or any other enactment relating to safety or standards applicable in respect of the transmission business ; and
 - (iv) the provision, installation and maintenance of any meters, switchgear or other electrical plant ancillary to the grant of use of system.

- 3 The whole or an appropriate proportion (as the case may be) of the charges of the

type described in Condition D8 of Part II (Basis of Charges for Use of System and Connection to System: Requirement for Transparency) and borne by any person as connection charges in respect of connections made after the grant of this licence may be treated as excluded services.

- 4 There may be treated as an excluded service charges for the relocation of electric lines or electrical plant and the carrying out of works associated therewith pursuant to a statutory obligation (other than under Section 9(2) of the Act) imposed on the licensee.
- 5 There may with the approval of the Authority be treated as an excluded service any service of a type not above referred to which:
 - (a) consists in the provision of services for the specific benefit of a third party requesting the same; and
 - (b) is not made available as a normal part of the transmission business remunerated by use of system charges.
- 6 Services may be regarded as excluded services where the charges are:
 - (a) the rental for transmission business assets hosting fibre-optic telecommunications systems and used by third parties;
 - (b) made for the provision of capacity for transferring electricity across any part of any Upgrade;
- 7 Where the Authority is satisfied that, in light of the principles set out in paragraphs 3 to 6 inclusive, any service treated as being or not being an excluded service should not be so treated, the Authority shall issue directions to that effect, and such service shall cease to be treated as an excluded service with effect from the date of issue of such directions (subject to paragraph 8 of Special Condition L (Information to be provided to the Authority in connection with the charge restriction conditions)) or such other date as may be specified in the direction.
- 8 For the purpose of this Schedule "Upgrade" shall have the meaning given in Special Condition B (Basis of Charges for Use of Scottish Interconnection).

Special Condition O: Restriction on Activity and Financial Ringfencing

1. Save as provided by paragraphs 3 and 4, the licensee shall not conduct any business or carry out any activity other than the transmission business.
2. The licensee shall not without the prior written consent of the Authority hold or acquire shares or other investments of any kind except:
 - (a) shares or other investments in a body corporate the sole activity of which is to carry on business for a permitted purpose; or
 - (b) shares or other investments in a body corporate which is a subsidiary of the licensee and incorporated by it solely for the purpose of raising finance for the transmission business; or
 - (c) investments acquired in the usual and ordinary course of the licensee's treasury management operations, subject to the licensee maintaining in force, in relation to those operations, a system of internal controls which complies with best corporate governance practice as required (or in the absence of any such requirement recommended) from time to time for listed companies in the United Kingdom.
3. Subject to the provisions of paragraph 2, nothing in this Condition shall prevent:
 - (a) any affiliate in which the licensee does not hold shares or other investments from conducting any business or carrying on any activity;
 - (b) the licensee from holding shares as, or performing the supervisory or management functions of, an investor in respect of any body corporate in which it holds an interest consistent with the provisions of this licence;
 - (c) the licensee from performing the supervisory or management functions of a holding company in respect of any subsidiary; or
 - (d) the licensee from carrying on any business or conducting any activity to which the Authority has given its consent in writing.
4. Nothing in this Condition shall prevent the licensee or an affiliate or related undertaking of the licensee in which the licensee holds shares or other investments (a "relevant associate") conducting de-minimis business as defined in this paragraph so long as the limitations specified in this paragraph are complied with:

- (a) For the purpose of this paragraph "de-minimis business" means any business or activity carried on by the licensee or a relevant associate or relevant associates other than:
 - (i) the transmission business
 - (ii) any other business activity to which the Authority has given its consent in writing in accordance with paragraph 3(d).
- (b) The licensee or a relevant associate may carry on de-minimis business provided that the relevant associate carries on no other business except activities of the transmission business and business activities authorised by the Authority under paragraph 3(d), and neither of the following limitations is exceeded, namely:
 - (i) the aggregate turnover of all the de-minimis business carried on by the licensee and all its relevant associates does not in any period of twelve months commencing on 1 April of any year exceed 2_{1/2}% of the aggregate turnover of the transmission business as shown by the most recent audited accounting statements of the licensee produced under paragraphs 2(b)(i) and (c) of standard condition 5 (Regulatory Accounts); and
 - (ii) the aggregate amount (determined in accordance with sub-paragraph (d) below) of all investments made by the licensee and all its relevant associates in their de-minimis business or de-minimis businesses does not at any time after the date this Special Condition takes effect in this licence exceed 2_{1/2}% of the sum of share capital in issue, share premium and consolidated reserves of the licensee as shown by its most recent audited historical cost financial statements then available.
- (c) For the purpose of sub-paragraph (b) of this paragraph, "investment" means any form of financial support or assistance given by or on behalf of the licensee or a relevant associate for the de-minimis business whether on a temporary or permanent basis including (without limiting the generality of the foregoing) any commitment to provide any such support or assistance in the future.

- (d) At any relevant time, the amount of an investment shall be the sum of:
 - (i) the value at which such investment was included in the audited historical cost balance sheet of the licensee or a relevant associate as at its latest accounting reference date to have occurred prior to the date this Special Condition takes effect in this licence (or, where the investment was not so included, zero);
 - (ii) the aggregate gross amount of all expenditure (whether of a capital or revenue nature) howsoever incurred by the licensee or a relevant associate in respect of such investment in all completed accounting reference periods since such accounting reference date; and
 - (iii) all commitments and liabilities (whether actual or contingent) of the licensee or a relevant associate relating to such investment outstanding at the end of the most recently completed accounting reference period.

5. In this Condition and in Special Condition S (Indebtedness)

- "permitted purpose" means the purpose of all or any of the following:
- (a) the transmission business or any other business or activity within the limits of paragraph 4 of this Condition;
 - (b) any business or activity to which the Authority has given its consent in writing in accordance with paragraph 3 (d) of this Condition; and
 - (c) without prejudice to the generality of sub-paragraph (a), any payment or transaction lawfully made or undertaken by the licensee for a purpose within sub-paragraphs 1(b)(i) to (vii) of Special

Condition S (Indebtedness).

Special Condition P: Availability of Resources

1. The licensee shall at all times act in a manner calculated to secure that it has available to it all such resources, including (without limitation) management and financial resources, personnel, fixed and moveable assets, rights, licences, consents and facilities on such terms and with all such rights as shall ensure that it is at all times able:
 - (a) properly and efficiently to carry on the transmission business; and
 - (b) to comply in all respects with its obligations under this licence and such obligations under the Act as apply to the transmission business including, without limitation, its duty to develop and maintain an efficient, co-ordinated and economical system of electricity transmission.

2. The licensee shall submit a certificate to the Authority, approved by a resolution of the board of directors of the licensee and signed by a director of the licensee pursuant to that resolution. Such certificate shall be submitted in June of each year. Each certificate shall be in one of the following forms:
 - (a) "After making enquiries, the directors of the licensee have a reasonable expectation that the licensee will have available to it, after taking into account in particular (but without limitation) any dividend or other distribution which might reasonably be expected to be declared or paid, sufficient financial resources and financial facilities to enable the licensee to carry on the transmission business for a period of 12 months from the date of this certificate."
 - (b) "After making enquiries, the directors of the licensee have a reasonable expectation, subject to what is said below, that the licensee will have available to it, after taking into account in particular (but without limitation) any dividend or other distribution which might reasonably be expected to be declared or paid, sufficient financial resources and financial facilities to enable the licensee to carry on the transmission business for a period of twelve months from the date of this certificate. However, they would like to draw attention to the following

factors which may cast doubt on the ability of the licensee to carry on the transmission business."

(c) "In the opinion of the directors of the licensee, the licensee will not have available to it sufficient financial resources and financial facilities to enable the licensee to carry on the transmission business for a period of 12 months from the date of this certificate."

3. The licensee shall submit to the Authority with that certificate a statement of the main factors which the directors of the licensee have taken into account in giving that certificate.

4. The licensee shall inform the Authority in writing immediately if the directors of the licensee become aware of any circumstance which causes them no longer to have the reasonable expectation expressed in the then most recent certificate given under paragraph 2.

5. The licensee shall use its best endeavours to obtain and submit to the Authority with each certificate provided for in paragraph 2 a report prepared by its auditors and addressed to the Authority stating whether or not the auditors are aware of any inconsistencies between, on the one hand, that certificate and the statement submitted with it and, on the other hand, any information which they obtained during their audit work.

6. The directors of the licensee shall not declare or recommend a dividend, nor shall the licensee make any other form of distribution within the meaning of section 263 of the Companies Act 1985, unless prior to the declaration, recommendation or making of the distribution (as the case may be) the licensee shall have issued to the Authority a certificate complying with the following requirements of this paragraph.

(a) The certificate shall be in the following form:

"After making enquiries, the directors of the licensee are satisfied:

(i) that the licensee is in compliance in all material respects with all obligations imposed on it by standard condition 11 (Provision of Information to the Authority), Special Condition O (Restriction on Activity and Financial Ring-

fencing), Special Condition P (Availability of Resources), Special Condition Q (Undertaking from ultimate controller), Special Condition R (Credit Rating of Licensee) and Special Condition S (Indebtedness) of the licence; and

- (ii) that the making of a distribution of [] on [] will not, either alone or when taken together with other circumstances reasonably foreseeable at the date of this certificate, cause the licensee to be in breach to a material extent of any of these obligations in the future."
- (b) The certificate shall be signed by a director of the licensee and approved by a resolution of the board of directors of the licensee passed not more than 14 days before the date on which the declaration, recommendation or payment will be made.
- (c) Where the certificate has been issued in respect of the declaration or recommendation of a dividend, the licensee shall be under no obligation to issue a further certificate prior to payment of that dividend provided such payment is made within six months of that certificate.

Special Condition Q: Undertaking from ultimate controller

1. 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 the form specified by the Authority that that ultimate controller ("the covenantor") will refrain from any action, and will procure that any person (including, without limitation, a corporate body) which is a subsidiary of, or is controlled by, the covenantor (other than the licensee and its subsidiaries) will refrain from any action which would then be likely to cause the licensee to breach any of its obligations under the Act or this licence. Such undertaking shall be obtained within 7 days of the company or other person in question becoming an ultimate controller and shall remain in force for as long as the licensee remains the holder of this licence and the covenantor remains an ultimate controller of the licensee.
2. The licensee shall:
 - (a) deliver to the Authority evidence (including a copy of each such undertaking) that the licensee has complied with its obligation to procure undertakings pursuant to paragraph 1;
 - (b) inform the Authority immediately in writing if the directors of the licensee become aware that any such undertaking has ceased to be legally enforceable or that its terms have been breached; and
 - (c) comply with any direction from the Authority to enforce any such undertaking;and 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 of any of the subsidiaries of any such corporate ultimate controller (other than the subsidiaries of the licensee) at a time when,
 - (i) an undertaking complying with paragraph 1 is not in place in relation to that ultimate controller, or
 - (ii) there is an unremedied breach of such undertaking; or
 - (iii) the licensee is in breach of the terms of any direction issued by the Authority under paragraph 2 of this Condition.

3. In this Condition

"ultimate controller" means:

- (a) a holding company of the licensee which is not itself a subsidiary of another company; and
- (b) any person who (whether alone or with a person or persons connected with him) is in a position to control, or to exercise significant influence over, the policy of the licensee or any holding company of the licensee by virtue of:
 - (i) rights under contractual arrangements to which he is a party or of which he is a beneficiary; or
 - (ii) rights of ownership (including rights attached to or deriving from securities or rights under a trust) which are held by him or of which he is a beneficiary; but excluding any director or employee of a corporate body in his capacity as such; and
- (c) for the purposes of sub-paragraph (b), a person is connected with another person if they are party to any arrangement regarding the exercise of any such rights as are described in that paragraph.

Special Condition R: Credit Rating of Licensee

1. The licensee shall use all reasonable endeavours to ensure that the licensee maintains at all times an investment grade issuer credit rating.
2. In this Condition and in Special Condition S (Indebtedness):
"investment grade issuer credit rating" means:
 - (a) an issuer rating of not less than BBB- by Standard & Poor's Ratings Group or any of its subsidiaries or a corporate rating of not less than Baa3 by Moody's Investors Service, Inc. or any of its subsidiaries or such higher rating as shall be specified by either of them from time to time as the lowest investment grade credit rating; or
 - (b) an equivalent rating from any other reputable credit rating agency which, in the opinion of the Authority, notified in writing to the licensee, has comparable standing in the United Kingdom and the United States of America.

Special Condition S: Indebtedness

1. In addition to the requirements of standard condition 10 (Disposal of Relevant Assets), the licensee shall not without the prior written consent of the Authority (following the disclosure by the licensee of all material facts):
 - (a) create or continue or permit to remain in effect any mortgage, charge, pledge, lien or other form of security or encumbrance whatsoever, undertake any indebtedness to any other person or enter into any guarantee or any obligation otherwise than:
 - (i) on an arm's length basis;
 - (ii) on normal commercial terms;
 - (iii) for a permitted purpose; and
 - (iv) (if the transaction is within the ambit of standard condition 10 (Disposal of Relevant Assets)) in accordance with that condition.
 - (b) transfer, lease, license or lend any sum or sums, asset, right or benefit to any affiliate or related undertaking of the licensee otherwise than by way of:
 - (i) a dividend or other distribution out of distributable reserves;
 - (ii) repayment of capital;
 - (iii) payment properly due for any goods, services or assets provided on an arm's length basis and on normal commercial terms;
 - (iv) a transfer, lease, licence or loan of any sum or sums, asset, right or benefit on an arm's length basis, on normal commercial terms and made in compliance with the payment condition;
 - (v) repayment of or payment of interest on a loan not prohibited by subparagraph (a);
 - (vi) payments for group corporation tax relief or for the

- surrender of Advance Corporation Tax calculated on a basis not exceeding the value of the benefit received; or
- (vii) an acquisition of shares or other investments in conformity with paragraph 2 of Special Condition O (Restriction on Activity and Financial Ringfencing) made on an arm's length basis and on normal commercial terms.
- (c) enter into an agreement or incur a commitment incorporating a cross-default obligation; or
 - (d) continue or permit to remain in effect any agreement or commitment incorporating a cross-default obligation subsisting at the date this Special Condition takes effect in this licence save that the licensee may permit any cross-default obligation in existence at that date to remain in effect for a period not exceeding twelve months from that date, provided that the cross-default obligation is solely referable to an instrument relating to the provision of a loan or other financial facilities granted prior to that date and the terms on which those facilities have been made available as subsisting on that date are not varied or otherwise made more onerous.
 - (e) the provisions of sub-paragraphs (c) and (d) of this paragraph shall not prevent the licensee from giving any guarantee permitted by and compliant with the requirements of paragraph (a).
 - (f) the payment condition referred to in sub-paragraph (b) (iv) is that the consideration due in respect of the transaction in question is paid in full when the transaction is entered into unless either:
 - (i) the counter-party to the transaction has and maintains until payment is made in full an investment grade issuer credit rating, or
 - (ii) the obligations of the counter-party to the transaction are fully and unconditionally guaranteed throughout the period during which any part of the consideration remains

outstanding by a guarantor which has and maintains an investment grade issuer credit rating.

2. In this Condition:

"cross-default obligation" means a term of any agreement or arrangement whereby the licensee's liability to pay or repay any debt or other sum arises or is increased or accelerated or is capable of arising, increasing or of acceleration by reason of a default (howsoever such default may be described or defined) by any person other than the licensee unless:

- (i) that liability can arise only as the result of a default by a subsidiary of the licensee,
- (ii) the licensee holds a majority of the voting rights in that subsidiary and has the right to appoint or remove a majority of its board of directors, and
- (iii) that subsidiary carries on business only for a purpose within paragraph (a) of the definition of permitted purpose (as defined in Special Condition O (Restriction on Activity and Financial Ringfencing)).

"indebtedness" means all liabilities now or hereafter due, owing or incurred, whether actual or contingent, whether solely or jointly with any other person and whether as principal or surety, together with any interest accruing thereon and all costs, charges,

penalties and expenses incurred in connection therewith.

SCHEDULE 1
SPECIFIED AREA

Great Britain

SCHEDULE 2

REVOCATION

1. The Authority may at any time revoke the licence by giving no less than 30 days' notice (24 hours' notice, in the case of a revocation under sub-paragraph 1(g)) in writing to the licensee:
 - (a) if the licensee agrees in writing with the Authority that the licence should be revoked;
 - (b) if any amount payable under standard condition 4 (Payments by Licensee to the Authority) is unpaid 30 days after it has become due and remains unpaid for a period of 14 days after the Authority has given the licensee notice that the payment is overdue - provided that no such notice shall be given earlier than the sixteenth day after the day on which the amount payable became due;
 - (c) if the licensee fails:
 - (i) to comply with a final order (within the meaning of section 25 of the Act) or with a provisional order (within the meaning of that section) which has been confirmed under that section and (in either case) such failure is not rectified to the satisfaction of the Authority within three months after the Authority has given notice in writing of such failure to the licensee - provided that no such notice shall be given by the Authority before the expiration of the period within which an application under section 27 of the Act could be made questioning the validity of the final or provisional order or before the proceedings relating to any such application are finally determined; or
 - (ii) to pay any financial penalty (within the meaning of section 27A of the Act) by the due date for such payment and such payment is not made to the Authority within three months after the Authority has given notice in writing of such failure to the licensee - provided that no such notice shall be given by the Authority before the expiration of the period within which an application under section 27E of the Act could be made

questioning the validity or effect of the financial penalty or before the proceedings relating to any such application are finally determined;

- (d) if the licensee fails to comply with:
 - (i) an order made by the Secretary of State under section 56, 73, 74 or 89 of the Fair Trading Act 1973; or
 - (ii) an order made by the court under section 34 of the Competition Act 1998.
- (e) if the licensee ceases to carry on the transmission business;
- (f) if the licensee has not commenced carrying on the transmission business within 5 years of the date on which the licence comes into force;
- (g) if the licensee:
 - (i) is unable to pay its debts (within the meaning of section 123(1) or (2) of the Insolvency Act 1986, but subject to paragraphs 2 and 3 of this Schedule) or has any voluntary arrangement proposed in relation to it under section 1 of that Act or enters into any scheme of arrangement (other than for the purpose of reconstruction or amalgamation upon terms and within such period as may previously have been approved in writing by the Authority);
 - (ii) has a receiver (which expression shall include an administrative receiver within the meaning of section 251 of the Insolvency Act 1986) of the whole or any material part of its assets or undertaking appointed;
 - (iii) has an administration order under section 8 of the Insolvency Act 1986 made in relation to it;
 - (iv) passes any resolution for winding-up other than a resolution previously approved in writing by the Authority; or
 - (v) becomes subject to an order for winding-up by a court of competent jurisdiction; or
- (h) if the licensee is convicted of having committed an offence under section 59 of the Act in making its application for the licence.

2. For the purposes of sub-paragraph 1(g)(i), section 123(1)(a) of the Insolvency Act 1986 shall have effect as if for "£750" there was substituted "£100,000" or such higher figure as the Authority may from time to time determine by notice in writing to the licensee.
3. The licensee shall not be deemed to be unable to pay its debts for the purposes of sub-paragraph 1(g)(i) if any such demand as is mentioned in section 123(1)(a) of the Insolvency Act 1986 is being contested in good faith by the licensee with recourse to all appropriate measures and procedures or if any such demand is satisfied before the expiration of such period as may be stated in any notice given by the Authority under paragraph 1.