

**TRANSMISSION LICENCE OF NATIONAL GRID COMPANY PLC AS AMENDED  
BY LICENSING SCHEME MADE BY SECRETARY OF STATE ON 26 AUGUST  
2004**

**Following is the text of the transmission licence of National Grid Company plc 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.**

**ELECTRICITY ACT 1989**

**SECTION 6(1)(b)**

**ELECTRICITY TRANSMISSION LICENCE**

**FOR**

**THE NATIONAL GRID COMPANY PLC**

## 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 The National Grid Company plc (a company registered in England and Wales under company registration number 2366977) ("the licensee") whose registered office is situated at National Grid House, Kirby Corner Road, Coventry CV4 8JY, to participate in the transmission of electricity to premises 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 only have effect in the licence if brought into effect in accordance with the provisions of standard conditions A2 and A3,  
  
subject to such amendments to those conditions, if any, as set out in Part III below (together "the conditions");
  - (b) the special conditions, if any, set out in Part IV below ("the special conditions"); and
  - (b) 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 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.

This licence was amended and restated by a licensing scheme made by the Secretary of State pursuant to Part II of Schedule 7 to the Utilities Act 2000 on 28 September 2001.

## 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. Supplementary standard condition C1 shall be amended by the addition of the following definitions:

"permitted purpose" means the purpose of any or all of the following:

- (a) the transmission business, the interconnector(s) business or any business or activity within the limits of paragraph 4 of special condition AA6;
- (b) any business or activity to which the Authority has given its consent in writing in accordance with paragraph 3(d) of special condition AA6; and
- (c) without prejudice to the generality of subparagraphs (a) and (b), any payment or transaction lawfully made or undertaken by the licensee for a purpose within subparagraphs (i) to (vii) of special condition AA10 1(b).

"transmission owner activity" means:

- (i) the activity of the licensee or any affiliate or related undertaking relating to the medium to long term planning, development, construction, maintenance and commercial management of the licensee's transmission system which is remunerated under special condition AA5A Part 1 and
- (ii) excluded services.

"transmission services activity" means the activity undertaken by the licensee prior to the effective time in the development

and operation of the licensee's transmission system for the purpose of optimising the costs arising from the operation of that system .

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

2. In respect of the terms "balancing services activity" and "transmission business", the existing definitions of these terms in supplementary standard condition C1 shall be superceded and replaced with the definitions set out below:

"balancing services activity" means the activity undertaken by the licensee as



part of the transmission business including the operation of the licensee's transmission system, the procuring and using of balancing services for the purpose of balancing the licensee's transmission system and for which the licensee is remunerated under Part 2 of special condition AA5A.

"transmission business"

means the authorised business of the licensee or any affiliate or related undertaking in the planning, development, construction, maintenance and commercial management of the licensee's transmission system (whether or not pursuant to directions of the Secretary of State made under section 34 or 35 of the Act) and the operation of such system for the transmission of electricity, including the transmission owner activity, the balancing services activity and any business in providing connections to the licensee's transmission system; but shall not include

- (i) any other separate business
- (ii) any business of the licensee or any affiliate or related undertaking in the provision of settlement services in connection with the BSC or the Pooling and Settlement Agreement or
- (iii) any other business (not being a separate business) of the licensee or any affiliate or related undertaking in the provision of services to or on behalf of any one or more persons.

## **PART IV. THE SPECIAL CONDITIONS**

### **Special Condition A1: 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. Where a term is used in these special conditions and is also used in Section C of the standard conditions for electricity transmission licences then, unless the context otherwise requires, it shall have the same meaning in these special conditions as is ascribed to that term in Section C of the standard conditions.
3. Any reference in these special conditions to:
  - (a) a provision thereof;
  - (b) a provision of the standard conditions of electricity transmission licences;
  - (c) a provision of the standard conditions of electricity supply licences;
  - (d) a provision of the standard conditions of electricity distribution licences;
  - (e) a provision of the standard conditions of electricity generation licences;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 AA1: Basis of Charges for Use of Interconnector(s) and Requirement to Offer Terms**

1. Charges for use of interconnector (s) shall be set at a level which will enable the licensee to recover no more than a reasonable rate of return on the capital represented by the interconnector (s).
2. On application made by any person (and subject to constraints imposed by the capacity of any interconnector (s) and the amount of that capacity already contracted to third parties) the licensee shall (subject to paragraph 3) offer to enter into an agreement for use of interconnector(s) to convey across any interconnector(s) electricity to be provided by or on behalf of such person.
3. The licensee shall not be obliged pursuant to this condition to offer to enter or to enter into an agreement with any person if:
  - (a) to do so would be likely to involve the licensee
    - (i) in breach of its duties under section 9 of the Act;
    - (ii) in breach of the conditions; 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 made with the co-operator of any interconnector (s) governing the operation and maintenance of interconnector (s) approved for the time being by the Authority.
4. For the purposes of this condition:

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

**Special Condition AA1A: Non-discrimination in the Provision of Use of Interconnector(s)**

1. In the provision of use of interconnector(s) the licensee shall not discriminate between any persons or class or classes of persons.
2. Without prejudice to paragraph 1, the licensee shall not make, provide, or offer to provide an agreement for use of interconnector(s) to any person or class or classes of persons on terms as to price which are materially more or less favourable than those on which it makes, provides or offers to provide an agreement for use of Interconnector(s) to any other comparable person or group of persons. For those purposes, due regard shall be had to the circumstances of provision, including volumes, conditions of interruptibility, and the date and duration of the agreement.
3. The licensee shall not in setting its charges for use of interconnector(s) restrict, distort or prevent competition in the transmission, supply, distribution or generation of electricity.
4. The licensee shall not be in breach of this condition where by reason of having previously granted use of interconnector(s), there is no further available capacity in respect of which to grant use of interconnector(s).

### **Special Condition AA1B: Functions of the Authority**

1. Upon the application of any person wishing to question the terms of an agreement for use of interconnector(s) offered pursuant to special condition AA1 (Basis of Charges for Use of Interconnector(s) and Requirement to Offer Terms) or required to be offered under the terms of any agreement previously entered into for use of interconnector(s) by the person or persons entitled to use thereunder or upon application of the licensee, the Authority may, pursuant to section 7(3)(c) of the Act, settle any terms of the agreement in dispute between the licensee and that person or between such persons (as the case may be) in such manner as appears to the Authority to be reasonable having (in so far as relevant) regard in particular to the following considerations:
  - (a) that the performance by the licensee of its obligations under the agreement should not cause it to be in breach of those provisions referred to at paragraph 3 of special condition AA1 (Basis of Charges for Use of Interconnector(s) and Requirement to Offer Terms); and
  - (b) 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 AA1 (Basis of Charges for Use of Interconnector(s) and Requirement to Offer Terms) or the person or persons entitled to use of interconnector(s) under any agreement previously made with the licensee (as the case may be) should be, so far as circumstances allow, in as similar a form as practicable.
2. In so far as any person entitled to an offer under special condition AA1 (Basis of Charges for Use of Interconnector(s) and Requirement to Offer Terms) 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.

## **Special Condition AA1C: 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 Annex to the Directive;

"Member State" means a Member State of the European Communities;

"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. Any entity applying in connection with transit for an agreement for use of system shall be treated for the purposes of standard conditions C7C (Non-Discrimination), C7D (Requirement to Offer Terms) and C7E (Functions of the Authority) as an authorised electricity operator.

3. The licensee shall, after receiving in connection with transit for a minimum duration of one year an application by any 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 interconnector(s),

notify the Secretary of State, the Authority and the Commission of the European Communities without delay of the matters set out in paragraph 4 below.

4. 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; and
  - (c) the conclusion of the agreement, whether it is concluded before or after the expiry of the period mentioned in sub-paragraph (b) above.
5. If, in relation to an application for transit by any entity, the Authority has been requested to exercise its powers under standard condition C7E (Functions of the Authority) or special condition AA1B (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 AA2: Transmission System Security Standard and Quality of Service**

1. The licensee shall at all times plan, develop and operate the licensee's transmission system in accordance with "NGC Transmission System Security and Quality of Supply Standard", Issue 2 (dated November 2000), together with the licensee's Grid Code and or such other standard of planning and operation as the Authority may approve from time to time and which the licensee may be required to adopt from time to time, (following consultation (where appropriate) with any authorised electricity operator liable to be materially affected thereby)
2. The licensee shall at all times have in force a statement approved by the Authority setting out criteria by which the performance of the licensee in maintaining the licensee's transmission system security and availability and quality of service may be measured.
3. 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 2 of this condition.
4. 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.



### **Special Condition AA3: Supplementary Prohibited Activities**

1. Except with the written consent of the Authority, the licensee shall not and shall procure that any affiliate or related undertaking of the licensee shall not, on its own account (or that of the licensee or of any affiliate or related undertaking of the licensee as the case may be), purchase or otherwise acquire electricity for the purpose of sale or other disposition to third parties except pursuant to the procurement or use of balancing services in connection with operating the licensee's transmission system and doing so economically and efficiently.
2. Paragraph 1 shall not apply in respect of the purchase of electricity under a supply agreement dated 9th February 1983 (as from time to time amended) and vested in the licensee pursuant to the transfer scheme, for the acquisition and sale of electricity from Kielder hydro-electric generating station.

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

1. The licensee shall operate the licensee's transmission system in an efficient, economic and co-ordinated manner.
2. Having taken into account relevant price and technical differences, the licensee shall not discriminate as between any persons or classes of persons in its procurement or use of balancing services.
3.
  - (a) The licensee shall before the effective time and thereafter at 12 monthly intervals (or such longer period as the Authority may approve) prepare a statement in a form approved by the Authority setting out the kinds of balancing services which it may be interested in purchasing in the period until the next statement is due and the mechanisms by which it would envisage purchasing them.
  - (b) Where during the term of the statement referred to in sub-paragraph (a) the licensee's intentions change regarding the types of services it wishes to purchase, the licensee shall review the statement and consider whether any revision to the statement is necessary and promptly seek to establish a revised statement in accordance with the terms of paragraph 8 of this special condition.
4. Within one month after the date on which each statement (other than the first one) is due to be published pursuant to paragraph 3, the licensee shall prepare a report in a form approved by the Authority in respect of the balancing services which the licensee has bought or acquired (other than balancing services which the licensee has acquired through the mere acceptance of an offer or bid in the balancing mechanism, provided such offer or bid was not made pursuant to any prior agreement) in the period of 12 months (or such longer period as the Authority may approve) ending on the date referred to above.
5.
  - (a) The licensee shall before the effective time prepare a statement approved by the Authority setting out (consistently with the licensee's duty under paragraph 2 and consistently with its other duties under the Act and the conditions of its transmission licence) the principles and criteria by which the licensee will determine, at different times and in different circumstances, which balancing services the licensee will use to assist in the operation of the licensee's transmission system (and/or to assist in

doing so efficiently and economically), and when the licensee would resort to measures not involving the use of balancing services.

- (b) The licensee shall if so directed by the Authority or when any modification should be made to the statement referred to in paragraph 5(a) to more closely reflect the intentions of the licensee but in any event at least once a year, review the statement prepared pursuant to sub-paragraph (a) and promptly seek to establish a revised statement approved by the Authority, such revisions to be made in accordance with the terms of paragraph 8 of this special condition.
- (c) The licensee shall as soon as practicable:
  - (i) after 1 April 2002, in respect of the period beginning at the effective time and ending on 1 April 2002;
  - (ii) after 30 September 2002, in respect of the period beginning on 1 April 2002 and ending on 30 September 2002; and
  - (iii) after 30 September 2003 and in each subsequent year, in respect of each period of twelve months commencing on 1 October and ending on 30 September

prepare a report on the manner in which and the extent to which the licensee has, during that period, complied with the statement prepared pursuant to sub-paragraph (a) together with any revision made in accordance with paragraph 8 of this special condition and whether any modification should be made to that statement to more closely reflect the practice of the licensee.

- (d) The report prepared pursuant to sub-paragraph (c) shall be accompanied by a statement from the licensee's auditors that they have carried out an investigation the scope and objectives of which shall have been established by the licensee and approved by the Authority, and they shall give their opinion as to the extent to which the licensee has complied with the statement prepared pursuant to sub-paragraph (a) together with any revision made in accordance with paragraph 8 of this special condition.

6. (a) This paragraph applies where the BSC provides that any imbalance price is to be determined (in whole or in part) by reference to the costs and volumes of relevant balancing services.
  - (b) Where this paragraph applies the licensee shall:
    - (i) before the effective time, establish a balancing services adjustment data methodology approved by the Authority;
    - (ii) from time to time thereafter, when the licensee first buys, sells or acquires any relevant balancing services of a kind or under a mechanism which is not covered by the prevailing balancing services adjustment data methodology, promptly seek to establish a revised balancing services adjustment data methodology approved by the Authority which covers that kind of balancing services or mechanisms for buying, selling or acquiring them;
    - (iii) prepare a statement of the prevailing balancing services adjustment data methodology as approved by the Authority; and
    - (iv) at all times determine and provide (for use under the relevant provisions of the BSC) the costs and volumes of relevant balancing services in compliance with the prevailing balancing services adjustment data methodology, which are to be taken into account in determining imbalance price(s) under the BSC.
  - (c) The licensee shall when any modification should be made to the statement referred to in sub-paragraph 6 (b) (iii) to more closely reflect the intentions of the licensee review the statement prepared pursuant to sub-paragraph 6 (b)(iii) and promptly seek to establish a revised statement approved by the Authority made in accordance with terms of paragraph 8 of this special condition.
7. (a) This paragraph applies where the BSC provides that any applicable balancing services volume data is to be determined (in whole or in part) by reference to the volumes of energy associated with the provision of applicable balancing services.
  - (b) Where this paragraph applies the licensee shall:
    - (i) before the date this paragraph comes into effect, establish an

applicable balancing services volume data methodology approved by the Authority;

(ii) **Not used;**

(iii) prepare a statement of the prevailing applicable balancing services volume data methodology as approved by the Authority; and

(iv) at all times determine and provide (for use under the relevant provisions of the BSC) the volumes of applicable balancing services in compliance with the prevailing applicable balancing services volume data methodology, which are to be taken into account in determining applicable balancing services volume data under the BSC.

(c) The licensee shall when any modification should be made to the statement referred to in sub-paragraph 7(b)(iii) to more closely reflect the intentions of the licensee review the statement prepared pursuant to sub-paragraph 7(b)(iii) and promptly seek to establish a revised statement approved by the Authority made in accordance with terms of paragraph 8 of this special condition.

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

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

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

(iii) submit to the Authority within seven (7) days of the close of the consultation period referred to in sub-paragraph 8(a) (ii) above a report setting out

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

- (iv) where the Authority directs that sub-paragraphs (i), (ii) and (iii) or any of them shall not apply, comply with such other requirements as are specified in the direction.
- (b) The licensee shall not revise the statements referred to in paragraphs 3(a), 5(a), 6(b)(iii) and 7(b)(iii) and each revision thereof until the expiry of 28 days from the date on which the Authority receives the report referred to in sub-paragraph (a)(iii) unless prior to such date the Authority either:
  - (i) directs the licensee to make the revisions on an earlier date; or
  - (ii) directs the licensee not to make the revision.
- 9. The licensee shall take all reasonable steps to comply with the statement for the time being in force pursuant to paragraph 5(a).
- 10. The licensee shall send to the Authority a copy of each of the statements and reports prepared pursuant to paragraphs 3, 4, 5, 6 and 7 and of all revisions to any such statements made in accordance with the terms of paragraph 8 of this special condition.
- 11. The licensee shall:
  - (a) publish (in such manner as the Authority may approve from time to time) the statements prepared pursuant to paragraphs 3(a), 5(a), 6(b)(iii) and 7(b)(iii) and each revision thereof, and
  - (b) send a copy of each statement and report prepared pursuant to paragraphs 3, 4, 5, 6 and 7 or the latest revision of any such statements to any person who requests the same, provided that the licensee shall exclude therefrom, so far as is practicable, any matter which relates to the affairs of any person where the publication of that matter would or might seriously and prejudicially affect his interests,and, for the purposes of paragraph (b), the licensee shall refer for determination by the Authority any question as to whether any matter would or might seriously and prejudicially affect the interests of any person (unless the Authority consents to the licensee not doing so).
- 12. The licensee may make a charge for any copy of a statement, report or revision sent pursuant to paragraph 11(b) of an amount reasonably reflecting the licensee's

reasonable costs of providing such a copy which shall not exceed the maximum amount specified in directions issued by the Authority for the purpose of this special condition.

13. The licensee shall, unless the Authority otherwise consents, maintain for a period of six years:

- (a) particulars of all balancing services offered to it;
- (b) particulars of all contracts (other than those in the balancing mechanism) for balancing services which it entered into;
- (c) particulars of all contracts for balancing services entered into by way of the acceptance of a bid or offer in the balancing mechanism where the bid or offer was made pursuant to a prior agreement;
- (d) records of all balancing services called for and provided; and
- (e) records of quantities of electricity imported and exported across each interconnector(s).

14. The licensee shall provide to the Authority such information as the Authority shall request concerning the procurement and use of balancing services.

15. In this special condition:

"applicable balancing services"	Means those services that the Authority directs the licensee to treat as applicable balancing services;
"applicable balancing services volume data"	Means the amount of energy deemed by virtue of the applicable balancing services volume methodology to have been produced or consumed as a result of delivering applicable balancing services;
"applicable balancing services volume data methodology"	means a methodology to be used by the licensee to determine what volumes of applicable balancing services are to be taken into account under the BSC for the purposes of determining in whole or in part the applicable balancing services volume

	<p>data in any period, which methodology shall cover each of the applicable balancing services which the licensee buys, sells or acquires at the time at which the methodology is established;</p>
<p>"balancing services adjustment data methodology"</p>	<p>means a methodology to be used by the licensee to determine what costs and volumes of relevant balancing services are to be taken into account under the BSC for the purposes of determining in whole or in part the imbalance price(s) in any period, which methodology shall cover each of the kinds of balancing services which the licensee buys, sells or acquires, and the mechanisms by which the licensee buys, sells or acquires them, at the time at which the methodology is established.</p>
<p>"imbalance price"</p>	<p>means a price, in the BSC, for charging for imbalances as referred to in paragraph 2(b)(ii) of standard condition C3 (Balancing and Settlement Code);</p>
<p>"relevant balancing services"</p>	<p>means balancing services other than</p> <ul style="list-style-type: none"> <li data-bbox="863 1467 1449 1780">(a) those which the licensee has acquired through the mere acceptance of an offer or bid in the balancing mechanism, provided that such offer or bid was not made pursuant to any prior agreement, and</li> <li data-bbox="863 1814 1449 1957">(b) those which the Authority directs the licensee not to treat as relevant balancing services.</li> </ul>



## Special Condition AA5: Revenue Restriction Conditions: Definitions

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

"acceleration repayment"	means any payment from the licensee to a user representing repayment of part of that user's accelerated depreciation and land charges which has become payable to the user as a consequence of a change to the licensee's connection charging methodology made on 1 April 2004.
"annual legacy asset payment"	means the sum of all payments in a financial year associated with a legacy asset made by the licensee to a user.
"asset age"	means the difference between the relevant year t and the year in which the asset was provided.
"average specified rate"	Means the average of the daily base rates of Barclays Bank PLC current from time to time during the period in respect of which any calculation falls to be made.
"balancing services activity revenue"	means the total revenue derived by the licensee from the carrying on of the balancing services activity.
"balancing services activity revenue restriction"	means Parts 2(i) and (ii) of special condition AA5A, and Part B of Schedule A , together with such parts of special conditions AA5B, AA5C, AA5D and AA5E inclusive as are ancillary thereto, all as from time to time modified or replaced in accordance therewith or pursuant to sections 11, 14 or 15 of the Act.

"excluded services"	means those services provided by the licensee as part of its transmission business which in accordance with the principles set out in Part A of Schedule A fall to be treated as excluded services.
"legacy assets"	Means any asset or portion of asset for which a user has paid capital contributions or termination charges prior to 1 April 2004 where such assets are, following that date, charged for via use of system charges as a consequence of a change to the licensee's connection charging methodology made on 1 April 2004.
"maximum revenue"	means the revenue calculated in accordance with the formula in Part 1 of special condition AA5A.
"New Electricity Trading Arrangements" or "(NETA)"	Means the wholesale electricity trading arrangements in England and Wales introduced by the Secretary of State under the Utilities Act 2000.
"non-domestic rates"	Means non-domestic rates payable by the licensee in respect of hereditaments (other than excepted hereditaments being a hereditament consisting of or comprising premises used wholly or mainly: <ul style="list-style-type: none"> <li>(a) as a shop or other place for the sale, display or demonstration of apparatus or accessories for use by consumers of electricity (any use for receipts of payments for the use of electricity being disregarded);</li> <li>(b) as office premises of the licensee where</li> </ul>

those premises are not situated on operational land of the licensee; or

(c) for both of the foregoing purposes (for the avoidance of doubt, office premises and operational land shall have the meaning ascribed to those terms in SI 2000/525 Central Ratings List (England) Regulations))

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

"relevant period t"

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

"relevant year"

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

"relevant year t"

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

"remote transmission asset rentals"

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

"transmission network revenue"

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

"transmission network revenue"

means Part 1 of special condition AA5A, and

restriction"

Part A of Schedule A and such parts of special condition AA5 and special conditions AA5B to AA5E inclusive as are ancillary thereto, all as from time to time modified or replaced in accordance therewith or pursuant to sections 11, 14 or 15 of the Act.

"user maintenance"

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

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

## Special Condition AA5A: Revised Restrictions on Revenue

### Part 1

#### 1. The Transmission Network Revenue Restriction

The licensee shall use its best endeavours to ensure that in any relevant year the revenue from its transmission network services shall not exceed the maximum revenue, which shall be calculated in accordance with the following formula:

$$M_t = \left[ 1 + \frac{RPI_t - X_g}{100} \right] P_{t-1} - D_t - K_t + G_t + U_t + CCC_t + LPC_t + LPR_t$$

where:

$M_t$  means the maximum revenue in relevant year t.

$RPI_t$  means the percentage change (whether of a positive or a negative value) in the arithmetic average of the Retail Price Index published or determined with respect to each of the six months from May to October (both inclusive) in relevant year t-1 and that are published or determined with respect to the same months in relevant year t-2.

$X_g$  has the value one and a half (1.5).

$P_{t-1}$  means the amount derived from the following formula:

$$P_{t-1} = P_{t-2} \left[ 1 + \frac{RPI_{t-1} - X_g}{100} \right]$$

save that:

- (i) in relation to the relevant year commencing on 1 April 2001  $P_{t-1}$  shall have a value equal to £785,400,000;
- (ii) in relation to the relevant year commencing on 1 April 2002  $P_{t-2}$  shall have that value; and
- (iii) in relation to the relevant year commencing on 1 April 2003  $P_{t-2}$  shall have the value derived from the following formula:

$$P_{t-2} = P_{t-3} \left[ 1 + \frac{RPI_{t-2} - X_g}{100} \right]$$

where:

$P_{t-3}$  shall have the value derived from the following formula:

$$P_{t-3} = \text{£}785,400,000 \left[ \frac{W}{Y} \right]$$

where:

- $W$  is the arithmetic average of the Retail Price Index published or determined with respect to each month of the relevant year commencing on 1 April 2001 on the assumption that the Retail Price Index for January 1987 equals 100.
- $Y$  is 175.17 (being the forecast of the Retail Price Index prepared by Business Strategies Limited in December 2000 in respect of the relevant year commencing on 1 April 2001 on the assumption that the Retail Price Index for January 1987 equals 100).
- $D_t$  means a correction factor to be applied to transmission network revenue and is equal to the value of user maintenance in relevant year  $t$ .
- $K_t$  means the correction factor (whether of a positive or negative value) which is derived from the formula in paragraph 2.
- $G_t$  means a revenue adjustment factor derived from the formula in paragraph 3.
- $U_t$  means a revenue adjustment factor reflecting changes in non-domestic rates and the licence fee, and is derived from the formula given in paragraph 4.
- $CCC_t$  means a revenue adjustment factor reflecting the difference between the reference level of excluded services revenue income in relevant year  $t$  as forecast when the price control was initially set and actual excluded services income in relevant year  $t$ , and is derived from the formula given in paragraph 4A.
- $LPC_t$  means a revenue adjustment factor reflecting the depreciation allowance and rate of return on legacy assets in relevant year  $t$ , and is derived from the formula given in paragraph 4B.
- $LPR_t$  means a revenue adjustment factor which is equal to the sum of all

acceleration repayments made to users in relevant year t, save that in the case of the relevant years commencing on 1 April 2001, 1 April 2002, and 1 April 2003  $LPR_t$  shall have a value equal to zero (0).

2. For the purpose of paragraph 1, the term  $K_t$  (being the correction factor to be applied to transmission network revenue for the relevant year t) shall be derived from the following formula:

$$K_t = (C_{t-1} - M_{t-1}) \left( 1 + \frac{I_t}{100} \right)$$

where:

$C_{t-1}$  means, subject to paragraph 3 of special condition AA5B, the transmission network revenue in relevant year t-1 provided that in calculating  $C_{t-1}$  for the purpose of  $K_t$  no account shall be taken of any positive or negative revenue in respect of the provision of transmission network services in any relevant year preceding t-1 other than such revenue as it is in the reasonable opinion of the Authority reasonable and appropriate to take into account.

$M_{t-1}$  means the maximum revenue in relevant year t-1.

$I_t$  means the interest rate in relevant year t which is equal to, where  $K_t$  (taking no account of I for this purpose) has a positive value and the transmission network revenue in relevant year t-1 exceeds the maximum revenue in relevant year t-1 by more than 2 percent, the average specified rate plus 4 or, where  $K_t$  (taking no account of I for this purpose) has a negative value or the transmission network revenue in relevant year t-1 does not exceed the maximum revenue in relevant year t-1 by more than 2 percent, the average specified rate.

3. For the purpose of paragraph 1, the term  $G_t$  (being the revenue adjustment associated with the commissioning of new generating plant to be applied to

transmission network revenue for the relevant year t) shall be calculated according to the following formula:

$$G_t = A_t [GW_t]$$

where:

$A_t$  is given by the following formula

$$A_t = ce_t [R_t + Dep_t]$$

where:

$ce_t$  which represents the capital expenditure per gigawatt of capacity of new generation or interconnector(s) capacity using the licensee's transmission system, is given by the following formula:

$$ce_t = ce_{t-1} \left[ 1 + \frac{RPI_t}{100} \right]$$

Where for the relevant year commencing on 1 April 2001  $ce_{t-1}$  shall have a value determined by the following formula:

$$ce_{t-1} = \text{£}23,000,000 \left[ 1 + \frac{RPI_{t-1}}{100} \right]$$

$R_t$  has the value six point two five (6.25) percent and is the licensee's allowed rate of return.

$Dep_t$  has the value two point five (2.5) percent and is the licensee's allowed cost of depreciation.



$GW_t$  is given by the following formula:

$$GW_t = GWfor_t - GWref_t$$

where:

$$GWfor_t = GWout_t + GWexp_t$$

$GWout_t$  is the sum of all capacities in gigawatts of those generation sets and interconnector(s) additional to those capacities under construction at 1 January 2000 which have commenced using the licensee's transmission system between 1 April 2001 and 31 December in the year t-1, save that in the case of the relevant year commencing on 1 April 2001  $GWout_t$  equals zero.

$GWexp_t$  is the sum of all capacities in gigawatts of those generation sets and interconnector(s) additional to those capacities under construction at 1 January 2000 which have not commenced but which are expected to commence using the licensee's transmission system between 1 January in the year t-1 and 31 March in the year t+1, save that in the case of the relevant year commencing 1 April 2001  $GWexp_t$  is the sum of all such capacities in gigawatts of those generation sets and interconnector(s) additional to those capacities under construction at 1 January 2000 which have not commenced but are expected to commence using the licensee's transmission system between 1 April 2001 and 31 March 2003.

$GWref_t$  represents the reference level of generation set and interconnector(s) capacity commissioning between 1 April 2001 and 31 March in year t+1, and has the value for relevant year t given against that year in the following table:

<b>Relevant Year t commencing on 1 April</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
<b>GWref<sub>t</sub></b>	0.6	1.7	3.4	4.5	5

4. For the purpose of paragraph 1, the term  $U_t$  (being the revenue adjustment for the relevant year  $t$  reflecting changes in non-domestic rates and the licence fee) shall be derived from the following formula:

$$U_t = [\text{Rate}_t + L_t] \left( 1 + \frac{I_t}{100} \right)$$

where:

$\text{Rate}_t$  is the difference between the non-domestic rates payable by the licensee in respect of year  $t-1$  (being for the avoidance of doubt, £Million, in money of the day) and the amount set against relevant year  $t-1$  in the following table:

<b>Relevant Year t commencing on 1 April</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
<b>Rate<sub>t</sub> £Million</b>	100.2	99.4	96.5	98.3	102.7

Save that in the case of relevant year commencing on 1 April 2001  $\text{Rate}_t$  shall have a value equal to zero (0).

$L_t$  is the difference between the licence fee payable by the licensee in year t-1 pursuant to standard condition 4 (being for the avoidance of doubt, £Million in money of the day) and the amount set against the relevant year t-1 in the following table:

<b>Relevant Year t commencing on 1 April</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
<b><math>L_t</math> £Million</b>	7.6	7.8	8.0	8.1	8.3

Save that in the case of relevant year commencing on 1 April 2001  $L_t$  shall have a value equal to zero (0).

- 4A. For the purpose of paragraph 1, the term  $CCC_t$  (being the revenue adjustment factor reflecting the difference between the reference level of excluded services revenue income in year t as forecast when the price control was initially set and actual excluded services income in year t) shall be derived from the following formula:

$$CCC_t = \left[ 1 + \frac{RPI(ES)_t}{100} \right] ES_{ref} - ES_t$$

where:

$RPI(ES)_t$  means the percentage change (whether of a positive or a negative value) in the arithmetic average of the Retail Price Index published or determined with respect to each of the six months from May to October (both inclusive) in relevant year t-1 and that are published or determined with respect to the same months in relevant year commencing 1 April 1999.

$ES_t$  is the actual excluded services revenue for the relevant year t.

ESref<sub>t</sub> represents the reference level of excluded service revenue and has the value for relevant year t given against that year in the following table:

Relevant Year t commencing on 1 April	2004	2005
ESref <sub>t</sub>	116	121

Save that in the case of the relevant years commencing on 1 April 2001, 1 April 2002, and 1 April 2003 CCC<sub>t</sub> shall have a value equal to zero (0).

- 4B. For the purpose of paragraph 1, the term LPC<sub>t</sub> (being the revenue adjustment factor reflecting the depreciation allowance and rate of return on legacy assets in relevant year t) shall be derived from the following formula:

$$LPC_t = \sum_{j=1}^{j=J} Lpc_{t,j,T}$$

where:

J is the total number of annual legacy asset payments which have been made in all years up to and including relevant year t.

Year T is the relevant year t of an annual legacy asset payment.

Lpc<sub>t,j,T</sub> means the revenue adjustment reflecting the depreciation allowance and rate of return in respect of annual legacy asset payment j in relevant year t for an annual legacy asset payment originally made in year T.

In year t = T Lpc<sub>t,j,T</sub> shall be calculated as:

$$Lpc_{t,j,T} = \left[ \frac{2.5(B_{j,T})}{100} + \frac{6.25(N_{j,T})}{100} \right]$$

In all subsequent years where asset age is less than forty (40),  
 $Lpc_{t,j,T}$  shall be calculated as:

$$Lpc_{t,j,T} = \left( \prod_{T+1}^t \left( 1 + \frac{RPI_t}{100} \right) \right) \left[ \frac{2.5(B_{j,T})}{100} - \left( \frac{1.5625(B_{j,T})}{1000} \right) (n) + \frac{6.25(N_{j,T})}{100} \right]$$

where:

$B_{j,T}$  shall be calculated as:

$$B_{j,T} = \left[ \frac{40(\text{annual legacy asset payment } j \text{ in year } T)}{(40 - \text{asset age in year } T \text{ for the asset related to annual legacy asset payment } j)} \right]$$

$N_{j,T}$  shall be calculated as:

$$N_{j,T} = \left[ \frac{2(\text{annual legacy asset payment } j \text{ in year } T) - \frac{2.5B_{j,T}}{100}}{2} \right]$$

$n$  is the difference in years between year  $t$  and year  $T$ .

$RPI_t$  shall have the same meaning as in paragraph 1 of this condition.

Save that:

- (a) in the case in the case of the relevant years commencing on 1 April 2001, 1 April 2002, and 1 April 2003  $LPC_t$  shall have a value equal to zero (0); and
- (b) no assets may be included in the calculation of  $LPC_t$  that have an asset age greater than 40.

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

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

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

where:

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

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

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

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

$OM_t$  means an amount representing the revenue from the

provision of balancing services to others during relevant period  $t$ , calculated in accordance with paragraph 7;

$\text{IncPayExt}_t$  means an incentive payment for relevant period  $t$  calculated in accordance with paragraph 8.

6. Balancing services activity adjustments

For the purposes of paragraph 5, the term  $\text{ET}_t$  which relates to prior year adjustments in respect of the relevant period  $t$  shall mean:

- (a) the costs, whether positive or negative, to the licensee of
- bids and offers in the balancing mechanism accepted by the licensee in any relevant year before relevant period  $t$  less the total non-delivery charge for the period; and
  - contracts for the availability or use of balancing services during any relevant year before relevant period  $t$ , excluding costs within  $\text{CSOBM}_t$  for any relevant year, but including charges made by the licensee for the provision of balancing services to itself in any relevant year before relevant period  $t$
- in each case after deducting such costs to the extent that they have been taken into account in any relevant year in computing the terms  $\text{CSOBM}_t$  or  $\text{BSCC}_t$ ; and
- (b) any amount within the term  $\text{ET}_t$  as defined in this licence in the form it was in on 1 April 2000 whether as then defined or as now defined.

7. Provision of balancing services to others

For the purpose of paragraph 5,  $\text{OM}_t$  (the amount representing the revenue from the provision of balancing services to others) shall be the sum of:

- (a) the total amount (exclusive of interest and value added tax attributable thereto) recovered by the licensee in respect of the relevant period  $t$  under any agreements entered into between an electricity supplier (being the holder of a supply licence granted or treated as granted under Section 6(1)(d) of the Act) or network operator (as defined in the grid code) and the licensee pursuant to which the costs of operation or non-operation of

generation sets which are required to support the stability of a user system (as defined in the grid code) are charged to such electricity supplier (as defined above) or network operator (as defined in the grid code); and

- (b) the total costs (exclusive of interest and value added tax attributable thereto) incurred by the licensee in respect of the relevant period t which arise by reason of the operation or non-operation of generation sets and which result directly or indirectly from works associated with the licensee's transmission system or works thereon being carried out, rescheduled or cancelled by reason of any agreement with, or request of, any third party other than an electricity supplier (as defined in paragraph 7 (a) of this special condition) or network operator (as defined in the grid code).

8. Determination of incentive payments on external costs

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

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

where:

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

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

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



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

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

$$IBC_t = CSOBM_t + BSCC_t + \sum_{jt} (TL_j [TLRP_j]) + \sum_{jt} (TQEI_j [NIRP_j]) - RT_t - OM_t$$

where:

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

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

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

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

- TLRP<sub>j</sub> which is the transmission losses reference price, has the value specified for each settlement period set out in paragraph B3 of Part B of Schedule A.
- NIRP<sub>j</sub> which is the net imbalance volume reference price for each settlement period j, has the values set out in paragraph B4 in Part B Schedule A.
- RT<sub>t</sub> means the amount of any allowed income adjustments given by paragraph 12 (b) in respect of relevant period t.

10. Income adjusting events under the balancing services activity

- (a) An income adjusting event is any of the following:
- (i) an event or circumstance constituting force majeure under the BSC;
  - (ii) an event or circumstance constituting force majeure under the CUSC made between the licensee and others and providing for connection to and use of the licensee's transmission system;
  - (iii) a security period as defined in special condition AA5D; and
  - (iv) an event or circumstance which is, in the opinion of the Authority, an income adjusting event and approved by it as such.
- (b) For the purpose of relevant year t commencing on 1 April 2004 and ending on 31 March 2005, the following items listed in tables 1 and 2 below shall not qualify as an income adjusting event for the purpose of sub-paragraph (a) above:

**Table 1:**

<b>Modification No.</b>	<b>Modification Title</b>
P124	Revision of mandatory half-hour metering criteria
P131	Further provisions relating to Trading Disputes
P132	Redefinition of Credit Cover requirements for reconciliation charges
P136	Marginal Definition of the 'main' Energy Imbalance Price
P137	Revised Calculation of System Buy and System Sell Price
P139	Removal of Trading Unit Restriction on Interconnector Users
P140	Revised Credit Cover Methodology for Interconnector BM Units

P142	Allow Level 2 Default Cure Period in Defined Circumstances
P146	New Participation Category to the BSC - Clearing House
P147	Introduction of a Notified Contract Capacity
P150	Targeting costs of PNE appeals to unsuccessful appellants
P151	Housekeeping Modification
P152	Reduction of Credit Cover for a Trading Party in Default
P153	Support Competition in Distribution Networks
P154	Rectification of Inconsistencies in the Change Process
P156	Zonal Allocation of Transmission Losses
P157	Replacement of current Supplier Charges rules

**Table 2:**

<b>Amendment No.</b>	<b>Amendment Title</b>
CAP049	Alternative Amendments
CAP050	Review Process for implemented Urgent Amendment Proposals
CAP051	Initiation of the Amendment Procedures by the Amendments Panel
CAP052	Removal of Land Charges
CAP053	Revision of Site Specific Maintenance Charges
CAP054	Adoption of Year Round TNUoS Charges
CAP055	Users' Demand Forecasts
CAP056	Incorrect Reference to the Grid Code in Section 11 – Definitions
CAP057	Removal of References to TSUoS Charges
CAP058	Reinstatement of words lost from Legal Text following implementation of CAP043
CAP059	Addition of word “Paragraph” to Paragraph 2.17.9
CAP060	Incorrect spelling of “Judgment” in Paragraph 6.6.4
CAP061	Addition of “CUSC Panel Secretary” to Exhibit F, Note 10
CAP062	Amendment to National Grid address in various exhibits
CAP063	Amendment to National Grid address in various exhibits
CAP064	Minor Reference error in Paragraph 7.2, Schedule 2, Exhibit 3
CAP065	Removal of various paragraphs referring to NETA Go Live
CAP066	Removal of historic transitional provisions that no longer have any application
CAP067	Clarification of Contractual Relationship Required for Embedded Generation (CUSC 6.5.1)

CAP068	Competing Requests for TEC
CAP069	Users' Forecasts Used in the Calculation of TNUoS Charges
CAP070	Short Term Firm Access Service

- (c) The Authority's approval of an income adjusting event shall be in writing, shall be copied to the licensee and shall be in the public domain; and the Authority may revoke this approval with the consent of the licensee.
11. (a) Where it appears to the licensee that there have been in respect of relevant period  $t$  costs and/or expenses which:
- (i) have been caused or saved by an income adjusting event; and
  - (ii) have, for relevant period  $t$ , increased or decreased by more than £2,000,000 the value of  $IBC_t$  save that in the case of paragraph 10(a)(iii) only the threshold of £2,000,000 shall not apply
- then the licensee shall give notice thereof to the Authority.
- (b) Where it appears to any other Party (as defined in the BSC) that there have been in respect of relevant year  $t$  costs and/or expenses which:
- (i) have been caused or saved by an income adjusting event; and
  - (ii) have, for the relevant period  $t$ , increased or decreased by more than £2,000,000 the value of  $IBC_t$  save that in the case of paragraph 10(a)(iii) only the threshold of £2,000,000 shall not apply
- then that Party (as defined in the BSC) may give notice thereof to the Authority.
- (c) The notice provided for in subparagraphs (a) and (b) shall give particulars of:
- (i) the income adjusting event to which the notice relates;
  - (ii) the amount of any change in costs and/or expenses which appear to the person giving the notice to have been caused or saved by the event and the method of calculating such costs and/or expenses; and
  - (iii) the amount of any allowed income adjustment proposed as a consequence of that income adjusting event.

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

**Part 2 (ii): Balancing services activity revenue restriction on internal costs**

13. The licensee shall use its best endeavours to ensure that in the relevant year  $t$  the revenue derived by the licensee from the balancing services activity associated with internal costs (being all balancing services activity revenue in relevant year  $t$  with the exception of any revenue in relevant year  $t$  accounted for under special condition AA5A Part 2(i) paragraph 5) shall not exceed an amount calculated in

accordance with the following formula:

$$BXint_t = (SOint_t[NPI]) + ASO_t$$

where:

**BXint<sub>t</sub>** means the balancing services activity revenue associated with internal costs in the relevant year other than any revenue in relevant year t accounted for under paragraph 5 of Part 2(i) special condition AA5A and is derived from the following components:

**SOint<sub>t</sub>** which is the aggregate of all internal costs associated with the balancing services activity in respect of relevant year t, calculated in accordance with paragraph 14 of this special condition;

**NPI** means the NETA Profiling Index in respect of relevant year t calculated in accordance with paragraph B11 of Part B of Schedule A; and

**ASO<sub>t</sub>** Has the value calculated in accordance with paragraph B10 of Part B of Schedule A.

14. For the purpose of paragraph 13, the term SOint<sub>t</sub> shall be derived from the following formula:

$$SOint_t = CSOC_t + IncPayInt_t + NSOC_t + SOBR_t + PSC_t$$

where:

**CSOC<sub>t</sub>** means the aggregate of the incentivised internal costs associated with the balancing services activity in respect of relevant year t.

**IncPayInt<sub>t</sub>** means the incentive payment associated with the internal costs of undertaking the balancing services activity in respect of relevant year t, calculated in accordance with paragraph 15 of this special condition.

**NSOC<sub>t</sub>** has the value set against relevant year t in the table in paragraph B7 in Part B of Schedule A and represents the allowed revenue in

respect of the non-incentivised internal costs of the licensee in operating the licensee's transmission system during relevant year t, including costs in preparing for the introduction of the New Electricity Trading Arrangements but excluding non-domestic rates incurred by the licensee in operating the licensee's transmission supply during relevant year t.

SOBR<sub>t</sub> represents the costs of non-domestic rates incurred by the licensee in operating the licensee's transmission system during relevant year t, has the value derived from the provisions of paragraph B8 in Part B of Schedule A.

PSC<sub>t</sub> represents the costs incurred by the licensee in preparing participants' systems for the introduction of the New Electricity Trading Arrangements and has the value derived from the provisions in paragraph B9 of Part B of Schedule A.

15. Determination of incentive payments on internal costs

For the purposes of paragraph 14, the term IncPayInt<sub>t</sub> shall be derived from the following formula:

$$IncPayInt_t = ISF_t (IMT_t - CSOC_t) + \frac{1}{NPI} \left[ \sum_M (1 - CSF_{Mt}) (CP_{Mt} - OS_{Mt}) \right]$$

where:

ISF<sub>t</sub> which is a balancing services activity sharing factor in respect of relevant year t, and has the value specified against the value of CSOC<sub>t</sub> for the relevant year t in the column headed ISF<sub>t</sub> in the appropriate table in paragraph B5 of Part B of Schedule A; and

IMT<sub>t</sub> which is a target for the incentivised internal costs associated with the balancing services activity in respect of relevant year t has the value specified for relevant year t in the table in paragraph B6 in Part B of Schedule A.

CSOC<sub>t</sub> has the meaning given in paragraph 14.

CSF<sub>Mt</sub> is a Contingency Provisions (as defined in the BSC from time to time) sharing factor in respect of each month M of relevant period t and has the value determined in accordance with paragraph B13 in

Part B of Schedule A .

$CP_{Mt}$  is the sum of the Ad-Hoc Trading Charges (as defined in the BSC from time to time) payable by the licensee in respect of the Contingency Provisions (as defined in the BSC from time to time) in month M of the relevant period t.

$OS_{Mt}$  which is the Contingency Provisions (as defined in the BSC from time to time) offset in respect of each month M of relevant period t, has the value determined in accordance with paragraph B14 in Part B of Schedule A .

$\sum_M$  means the summation over all months M in relevant period t.

NPI shall have the meaning given in paragraph 13 of Part 2(ii) of this special condition.

**Part 2 (iii): Information on the balancing services activity revenue restriction**

16. (a) Not later than 3 months after the end of each relevant year the licensee shall send to the Authority a statement giving the value for that relevant year of the terms specified in subparagraph (c);
- (b) The statement referred to in subparagraph (a) shall:
- (i) be certified by a director of the licensee on behalf of the licensee that to the best of his knowledge, information and belief having made all reasonable enquiries:
    - (A) there is no amount included in its calculations of the terms specified in subparagraph (c) which represents other than an amount permitted to be included by this special condition; and
    - (B) all amounts of which the licensee is aware and which should properly be taken into account for the purposes of this special condition have been taken into account; and
  - (ii) accompanied by a report from the Auditors that in their opinion:
    - (A) such statement fairly presents the value of each of the terms specified in subparagraph (c) in accordance with the requirements of this special condition; and



(B) the amounts shown in respect of each of those terms are in accordance with the licensee's accounting records which have been maintained in accordance with standard condition 5.

(c) The terms specified in this subparagraph are:

$BX_{ext,t}$ ,  $CSOBM_t$ ,  $BSCC_t$ ,  $ET_t$ ,  $RT_t$ ,  $IncPayExt_t$ ,  $OM_t$ ,  $BX_{int,t}$ ,  $CSOC_t$ ,  $IncPayInt_t$ ,  $PSC_t$ ,  $ASO_t$ ,  $SOBR_t$  and  $CP_{Mt}$

and

$BCA_{jt}$ ,  $SCA_{jt}$ ,  $BVA_{jt}$ ,  $SVA_{jt}$  and  $QAS_{ij}$

where:

$BCA_{jt}$  is the Buy Price Cost Adjustment as from time to time defined in the BSC for each Settlement Period, in relevant period t.

$SCA_{jt}$  is the Sell Price Cost Adjustment as from time to time defined in the BSC for each Settlement Period, in relevant period t.

$BVA_{jt}$  is the Buy Price Volume Adjustment as from time to time defined in the BSC for each Settlement Period, in relevant period t.

$SVA_{jt}$  is the Sell Price Volume Adjustment as from time to time defined in the BSC for each Settlement Period, in relevant period t.

$QAS_{ij}$  is the volume of applicable balancing service energy in respect of BM Unit i, in settlement period j, defined in the BSC for each Settlement Period.

(d) The statement referred to subparagraph (a) shall separately identify components of the terms specified in subparagraph (c) to the extent stipulated in this special condition.

**Special Condition AA5B: Adjustments to Initial Transmission Network Revenue Formula**

1. If, in respect of any relevant year, the transmission network revenue exceeds the maximum revenue by more than 3 percent 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 network services unless it has demonstrated to the reasonable satisfaction of the Authority that the transmission network revenue would not be likely to exceed the maximum revenue in that next following relevant year.
2. If, in respect of any two successive relevant years, the sum of the amounts by which the transmission network revenue has exceeded the maximum revenue is more than 4 percent of the maximum revenue for the second of those years, then in the next following relevant year the licensee shall, if required by the Authority, adjust its charges such that the transmission network revenue would not be likely, in the judgement of the Authority, to exceed the maximum revenue in that next following relevant year.
3. If, in respect of two successive relevant years, the transmission network revenue is less than 90 percent of the maximum revenue, the Authority, after consultation with the licensee, may direct that, in calculating  $K_t$  in respect of the next following relevant year, there shall be substituted for  $C_{t-1}$  in the formula set out in paragraph 2 of Part 1 of special condition AA5A above such figure as the Authority may specify being not less than  $C_{t-1}$  and not more than  $0.90 (M_{t-1})$ .

**Special Condition AA5C: Information to be Provided to the Authority in Connection with the Transmission Network Revenue Restriction**

1. Where the licensee is intending to make any change in charges for the provision of Transmission network services, the licensee shall not later than the time of publication of such change provide the Authority with:
  - (a) a written forecast of the maximum revenue, together with its components, in respect of the relevant year  $t$  in which such change is to take effect and in respect of the next following relevant year  $t + 1$ ;
  - (b) a written estimate of the maximum 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;
  - (c) a written forecast of the value of  $D_t$ ;
  - (d) a written forecast of the value of  $CCC_t$ ;
  - (e) a written forecast of the value of  $LPC_t$  and  $B_{j,T}$  and  $N_{j,T}$  for assets where relevant year  $t = T$ ; and
  - (f) a written forecast of the value of  $LPR_t$ .
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 revenue, together with its components, in respect of that 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 any relevant year  $t$ , the licensee shall send the Authority a statement as to:
  - (a) Whether or not the provisions of special condition AA5B are likely to be applicable in consequence of the transmission network revenue in the preceding relevant year  $t - 1$  or the two preceding relevant years  $t - 1$  and  $t - 2$ .

2; and

- (b) Its best estimate as to the relevant correction factor  $K_t$  to be applied in calculating the maximum revenue in respect of the relevant year  $t$ .
5. Not later than three months after the end of a relevant year the licensee shall send the Authority a statement, in respect of that relevant year:
- (a) Containing the information relating to the amount of the licensee's allowed security costs, the aggregate amounts charged on account of the licensee's allowed security costs and the bases and calculations underlying the increases in charges made by the licensee in respect of transmission network services together with an explanation of the basis of attribution of allowed security costs in respect of transmission network services referred to in paragraph 5 of special condition AA5D;
  - (b) Specifying the nature of all services provided as part of its transmission business and treated as excluded services by the licensee, together with a statement of the revenues derived by the licensee from each service so treated
  - (c) Stating whether there were connections subject to user maintenance and quantifying the value of user maintenance;
  - (d) Stating the actual outcome of the value of  $CCC_t$ ;
  - (e) Stating the actual outcome of the value of  $LPC_t$  and the values of  $B_{j,T}$  and  $N_{j,T}$  for assets where relevant year  $t = T$ ; and
  - (f) Stating the actual outcome of the value of the  $LPR_t$ , broken down into all its component parts.
6. The statement referred to in the preceding paragraph shall be:
- (a) accompanied by a report from the Auditors that in their opinion (i) such statement fairly presents the amount of the allowed security costs, the aggregate amounts charged on account of such allowed security costs, the bases and calculations underlying the increases in charges together with the basis of attribution of such costs, the transmission network revenue, the nature of the services treated as excluded services and the revenues attributable thereto, and the value of user maintenance, and the value of

CCC<sub>t</sub> and the value of LPC<sub>t</sub>, and the values of B<sub>j,T</sub> and N<sub>j,T</sub> for assets where relevant year t = T, and the value of LPR<sub>t</sub>, and (ii) the amounts of the allowed security costs, the aggregate amounts charged on account of the allowed security costs, the transmission network revenue, the revenue from excluded services, the value of user maintenance shown in such statement, the value of CCC<sub>t</sub>, the value of LPC<sub>t</sub>, the values of B<sub>j,T</sub> and N<sub>j,T</sub> for assets where relevant year t = T and the value of LPR<sub>t</sub> are in accordance with the licensee's accounting records which have been maintained in accordance with standard condition 5; and

- (b) certified by a director of the licensee on behalf of the licensee that to the best of his knowledge, information and belief having made all reasonable enquiries:
- (i) there is no amount included in its calculations of allowed security costs under special condition AA5D which represents other than an amount permitted under this Condition to be so included; and
  - (ii) no service has been treated as an excluded service other than a service permitted to be so treated in accordance with Part A of 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;
  - (iv) the value which the licensee has attributed to D<sub>t</sub> takes into account all user maintenance in that relevant year, whether agreed or determined (or, where neither agreed nor determined, properly estimated); and
  - (v) amounts included in LPC<sub>t</sub> are bona fide considerations and do not include considerations for assets which have been fully depreciated.

### **Special Condition AA5D: 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 transmission network revenue restriction 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 his duties under the Act) by means of directions:
  - (a) suspend or modify for the unexpired term of the security period the transmission network revenue restriction or any part or parts thereof; or
  - (b) introduce for the unexpired term of the security period a new transmission network revenue restriction,

in either case so as to make such provision as in the opinion of the Authority is requisite or appropriate to enable the licensee to recover by means of an appropriate equitable increase on all charges made in the course of the provision of transmission network services an amount estimated as being equal to the licensee's allowed security costs attributable to the provision of transmission network services 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 its allowed security costs attributable to the provision of transmission network services in that year or (insofar as not previously recovered) any previous year, by means of appropriate equitable increases on the charges made by the licensee in the course of the provision of transmission network services.
4. Paragraph 3 shall not apply insofar as such allowed security costs:
  - (a) were otherwise recovered by the licensee; or
  - (b) were taken into account by the Authority in setting a transmission network revenue restriction by means of directions issued under paragraph 2 above.
5. The licensee shall following the end of each relevant year provide to the Authority details in respect of that relevant year of:
  - (a) the amount of the licensee's allowed security costs;

- (b) the aggregate amounts charged under paragraph 3 on account of the licensee's allowed security costs; and
  - (c) the bases and calculations underlying the increases in charges made by the licensee in its provision of transmission network services together with an explanation of the basis of attribution of allowed security costs to the provision of transmission network services.
6. Where the Authority is satisfied that the licensee has recovered amounts in excess of the allowed security costs attributable to the provision of transmission network services, the Authority may issue directions requiring the licensee to take such steps as may be specified to reimburse customers in receipt of transmission network services for the excess amounts charged to them, and the licensee shall comply with any directions so issued provided that if the excess amounts relate to allowed security costs paid to any authorised electricity operator, the licensee shall not be obliged to make any such reimbursement unless and until it has recovered such costs from the relevant authorised electricity operator.
7. No amounts charged by the licensee under this special condition (whether or not subsequently required to be reimbursed) shall be taken into account for the purpose of applying the provisions of Part 1 of special condition AA5A.
8. In this special condition:
- |                         |   |
|-------------------------|---|
| "allowed security cost" | shall have the meaning ascribed to that term in the Fuel Security Code.   |
| "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 he 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 AA5E: Duration of the Transmission Network Revenue Restriction and the Balancing Services Activity Revenue Restriction**

1. The balancing services activity revenue restriction and the transmission network revenue restriction shall apply so long as this licence continues in force but shall cease to have effect in such circumstances and at such times as are described in paragraphs 2 to 6 below.
2. The transmission network revenue restriction and the balancing services activity revenue restriction (or any of them) shall cease to have effect (in whole or in part, as the case may be) if the licensee delivers to the Authority a disapplication request made in accordance with paragraph 3 or notice is given to the Authority by the licensee in accordance with either paragraph 5 or paragraph 6.
3. A disapplication request shall
  - (i) be in writing addressed to the Authority,
  - (ii) specify whether it relates to the balancing services activity revenue restriction and/or to the transmission network revenue restriction (or to both or any of them or to any part or parts thereof) and
  - (iii) state the date (being not earlier than the date referred to in paragraph 4) from which the licensee wishes the Authority to agree that those conditions shall cease to have effect.
4. No disapplication following delivery of a disapplication request shall have effect until a date being the earlier of not less than 18 months after delivery of the disapplication request or the following date:
  - (i) in the case of a disapplication request which relates to the transmission network revenue restriction, 31 March 2006;
  - (ii) in the case of a disapplication request which relates to the balancing services activity revenue restriction set out in Part 2(i) of special condition AA5A, 31 March 2005; and
  - (iii) in the case of a disapplication request which relates to the balancing services activity revenue restriction set out in Part 2(ii) special condition AA5A, 31 March 2006.

Provided that in the event of a disapplication request being served by the

licensee in the absence of agreeing any or all of the transmission network revenue and the balancing services activity revenue restriction the following default position shall apply:-

- (A) for the transmission network revenue restriction, the maximum allowable revenue for the relevant year commencing 1 April 2006 shall be defined in accordance with the formula in Part 1 of special condition AA5A where  $X_g$  equals zero and  $GW_{ref,t}$ ,  $Rate_t$  and  $L_t$  shall have the same values as those given in paragraphs 3 and 4 of Part 1 of special condition AA5A for the relevant year commencing on 1 April 2005;
  - (B) for the balancing services activity revenue restriction set out in Part 2(ii) of special condition AA5A, the values set out in Schedule A, Part B for the relevant year commencing on 1 April 2005 shall apply; and
  - (C) for the balancing services activity revenue restriction set out in Part 2(i) of special condition AA5A, the values set out in Schedule A, Part B shall apply.
5. If the Authority has not made a reference to the Competition Commission under section 12 of the Act relating to the modification of the Conditions or the part of parts thereof specified in the disapplication request before the beginning of the period of 12 months which will end with the disapplication date, the licensee may deliver written notice to the Authority terminating the application of such Conditions (or any part or parts thereof) as are specified in the disapplication request with effect from the disapplication date or a later date.
6. If the Competition Commission makes a report on a reference made by the Authority relating to the modification of the Conditions (or any part or parts thereof) specified in the disapplication request and such report does not include a conclusion that the cessation of those Conditions, in whole or in part, operates or may be expected to operate against the public interest, the licensee may within 30 days after the publication of the report by the Authority in accordance with section 13 of the Act deliver to him written notice terminating the application of those conditions or any part or parts thereof with effect from the disapplication date or later.

### **Special Condition AA6: 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 and the interconnector (s) 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 is incorporated by it solely for the purpose of raising finance for the transmission business or the interconnector(s) 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 special 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 special condition shall prevent the licensee or an affiliate or related undertaking 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 relevant associates other than:
  - (i) the transmission business and the interconnector(s) business; and
  - (ii) any other business activity to which the Authority has given its consent in writing under 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 the activities of the transmission business and interconnector(s) 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 2½% of the aggregate turnover of the transmission business and the interconnector(s) business as shown by the most recent audited accounting statements of the licensee produced under paragraphs 3(b)(i) and (c) of standard condition 5; and
  - (ii) the aggregate amount (determined in accordance with subparagraph (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 31 March 2001 exceed 2½% 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 subparagraph (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 31 March 2001 (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;
  - (iii) all commitments and liabilities (whether actual or contingent) of the licensee or a relevant associate relating to such investments outstanding at the end of the most recently completed accounting reference period;

less the sum of

the aggregate gross amount of all income (whether of a capital or revenue nature) howsoever received by the licensee in respect of such investment in all completed accounting reference periods since such accounting reference date.

## **Special Condition AA7: 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) to properly and efficiently carry on the transmission business and the interconnector(s) 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 and the interconnector(s) 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 and the interconnector(s) 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 and the interconnector(s) business for a period of twelve months from that 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 and/or the interconnector(s) 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 and the interconnector(s) 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 special condition AA11 (Provision of Information to the Authority), special condition AA6 (Restriction on Activity and Financial Ring-fencing), special condition AA7 (Availability of Resources), special condition AA8 (Undertaking

from ultimate controller), special condition AA9 (Credit Rating) and paragraph 1 of special condition AA10 (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 AA8: 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 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 director's 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 subparagraph (c).

### **Special Condition AA9: 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 special condition and in special condition AA10 (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 AA10: 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) 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 AA6 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.
- (d) continue or permit to remain in effect any agreement or commitment incorporating a cross-default obligation subsisting 31 March 2001 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 paragraph 1 (c) and (d) shall not prevent the licensee from giving any guarantee permitted by and compliant with the requirements of paragraph 1(a).
- (f) the payment condition referred to in subparagraph 1 (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 special 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
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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 director's, and
- (iii) that subsidiary carries on business only for a purpose within paragraph (a) of the definition of permitted purpose.

"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.

"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 AA11: Provision of Information to the Authority**

1. Subject to paragraphs 5 and 6, the licensee shall furnish to the Authority, in such manner and at such times as the Authority may reasonably require, such information and shall procure and furnish to it such reports, as the Authority may reasonably require or as may be necessary for the purpose of performing:
  - (a) the functions conferred to it by or under the Act; and
  - (b) any functions transferred to or conferred to it by or under the Utilities Act 2000.
2. The licensee shall procure from each company or other person which the licensee knows or reasonably should know is at any time an ultimate controller of the licensee a legally enforceable undertaking in favour of the licensee in a form specified by the Authority that the ultimate controller ("the information covenantor") will give to the licensee, and will procure that any person (including, without limitation, a corporate body) which is a subsidiary of, or is controlled by, the information covenantor (other than the licensee and the Licensee's Subsidiaries) will give to the licensee, all such information as may be necessary to enable the licensee to comply fully with the obligation imposed on it in paragraph 1. Such undertaking shall be obtained within 7 days of such corporate body or other person in question becoming an Ultimate controller of the licensee and shall remain in force for so long as the licensee remains the holder of this licence and the information covenantor remains an ultimate controller of the licensee.
3. The licensee shall deliver to the Authority evidence (including a copy of each such undertaking) that the licensee has complied with the obligation to procure undertakings pursuant to paragraph 2, and shall comply with any direction from the Authority to enforce any undertaking so procured.
4. The licensee shall not, save with the consent in writing of the Authority, enter (directly or indirectly) into any agreement or arrangement with any ultimate controller of the licensee or, where the ultimate controller is a corporate body, any of the subsidiaries of such a corporate ultimate controller (other than the subsidiaries of the licensee) at a time when:
  - (a) an undertaking complying with paragraph 2 is not in place in relation to

that ultimate controller; or

- (b) there is an unremedied breach of such undertaking; or
  - (c) the licensee is in breach of the terms of any direction issued by the Authority under paragraph 3 of this special condition.
5. The licensee shall not be required by the Authority to furnish it under this special condition with information for the purpose of the exercise of its functions under section 47 of the Act.
  6. This special condition shall not require the licensee to produce any documents or give any information which it could not be compelled to produce or give in evidence in civil proceedings before a court.
  7. The power of the Authority to call for information under this special condition is in addition to the power of the Authority to call for information under or pursuant to any other special condition.



**Draft Special Condition AA12: Restriction on Use of Information deriving from the EnMo Business**

1. The licensee shall procure that each ultimate holding company of the licensee which is also an ultimate holding company of EnMo (a "relevant ultimate holding company") shall give an undertaking in the form described in paragraph 5.
2. Without prejudice to the licensee's obligation under paragraph 1, any breach of the undertaking given pursuant to paragraph 1 shall be a breach by the licensee of the licence.
3. Any information, held by EnMo or any subsidiary or holding company of EnMo, or by any employee, agent, adviser, consultant, contractor, director or officer of EnMo or of any subsidiary or holding company of EnMo (each such legal or natural person being called an "Enmo source"), relating to volumes or prices of gas, electricity and related products or services, traded or to be traded in the course of EnMo business or relating to any of the parties to any such trade in relation thereto shall be confidential information ("EnMo confidential information").
4. Notwithstanding paragraph 3, the following information shall not fall within the definition of EnMo confidential information for the purpose of this special condition:-
  - (i) information which is in the public domain, other than through breach of the undertaking given pursuant to paragraph 1;
  - (ii) information solely in relation to trades by or on behalf of the licensee through the EnMo business (to the extent the same is properly disclosed to the licensee in the ordinary course of the EnMo business in compliance with all applicable laws, regulations and contracts);
  - (iii) information which is disclosed in accordance with the terms of any consent given by the Authority or by the person entitled to disclose it; or
  - (iv) information which EnMo is contractually obliged to provide to Transco plc pursuant to the Network Code or a contract entitled "Within Day Gas Market: Market Operator Appointment Contract dated 1 September 1999".
5. The licensee shall procure from each relevant ultimate holding company a legally enforceable undertaking in favour of the licensee that the relevant ultimate holding

company shall use its best endeavours to ensure that no EnMo confidential information shall be disclosed to or otherwise howsoever come into the possession of the licensee whether directly or indirectly from an EnMo source. Such undertaking shall be obtained from each relevant ultimate holding company within seven (7) days of that company becoming a relevant ultimate holding company and shall remain in force so long as it remains a relevant ultimate holding company.

6. The licensee shall:
- (a) deliver to the Authority evidence (including a copy of the undertaking) that the licensee has complied with the obligation to procure the undertaking pursuant to this special condition;
  - (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 or that there has been a change in identity of a relevant ultimate holding company; and
  - (c) comply with any direction from the Authority to enforce any such undertaking.
7. In the event that any EnMo confidential information comes into the possession of the licensee, the licensee shall ensure that such information shall be treated as confidential, and shall not be used in any respect for the purpose of or in connection with the management or operation of its transmission business.
8. In this special condition:

"EnMo" means EnMo Limited, a company incorporated in England and Wales under the Companies Act 1985 (registered number 3751681) and having its registered office at 15 Marylebone Road, London, NW1 5JD.

"EnMo business" means any business carried on by EnMo including, without limitation, the operation of the On-the-Day Commodity Market in gas operated by EnMo.

"information"	shall include, without limitation, any documents, accounts, estimates, returns, records or reports and data in written, verbal or electronic format and information in any form or medium whatsoever.
"Network Code"	has the meaning given in standard condition 1 of the gas transporter licence held by Transco plc.
"ultimate holding company"	shall mean any company or body corporate which is a holding company and is not itself a subsidiary of another company or body corporate.

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

**PART A**

**Excluded services**

- A1. There may be treated as excluded services provided by the licensee in its transmission business such services in respect of which charges are made which:
- (a) do not fall within paragraph A2 of this Schedule; and
  - (b) may (subject to paragraph 6) be determined by the licensee as falling under one of the principles set out in paragraphs A3 to A5 of this Schedule.
- A2. No service provided by the licensee as part of its 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 paragraph 2 of supplementary standard condition C7 including (without prejudice to the foregoing):
- (i) the transport of electricity;
  - (ii) the operation of the licensee's transmission system;
  - (iii) 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;
  - (iv) 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 conditions 8 and 12, 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
  - (v) the provision, installation and maintenance of any meters, switchgear or other electrical plant ancillary to the grant of use of system.
- A3. The whole or an appropriate proportion (as the case may be) of the charges of the type described in paragraph 4 of supplementary standard condition C7B 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.

- A4. 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.
- A5. 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 by the licensee as a normal part of the transmission business remunerated by use of system charges.
- A6. Where the Authority is satisfied that in light of the principles set out in paragraphs A2 to A5 inclusive any service treated by the licensee as 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 or such earlier date (being not earlier than the commencement of the relevant year to which the statement last furnished to the Authority pursuant to paragraph 5(b) of special condition AA5C prior to issue of such directions related, unless such statement or the accompanying report or certificate referred to in paragraph 6 of such special condition or any earlier such statement, report or certificate was incorrect or misleading in any material respect) as may be specified in the directions.

## PART B

### Terms used in the balancing services activity revenue restriction

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

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

$IBC_t$ (£)	$MT_t$ (£)	$SF_t$	$CB_t$ (£)
$< 315,000,000$	0	0	40,000,000
$315,000,000$ $\leq IBC_t <$ $415,000,000$	415,000,000	0.40	0
$415,000,000$ $\leq IBC_t <$ $515,000,000$	415,000,000	0.40	0
$\geq 515,000,000$	0	0	-40,000,000

(b) in respect of the relevant year  $t$  commencing on 1 April 2005 and each relevant year thereafter, the terms  $MT_t$ ,  $SF_t$  and  $CB_t$  shall be set to zero.

B2. Not used.

B3. For the purpose of paragraph 9 of Part 2(i) of special condition AA5A, the term  $TLRP_j$  in respect of each settlement period during relevant period  $t$  shall have the value in £ per megawatt hour of 21.00.

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

- (a)(i) when UKPX<sub>j</sub> and APX<sub>j</sub> data are published in respect of the relevant settlement period j then:

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

- (ii) when UKPX<sub>j</sub> data are published and APX<sub>j</sub> data are not published in respect of the relevant settlement period j then:

$$SPNIRP_j = UKPX_j$$

- (iii) where UKPX<sub>j</sub> data j are not published in respect of the relevant settlement period j and APX<sub>j</sub> data are published in respect of the relevant settlement period j then:

$$SPNIRP_j = APX_j$$

- (iv) where neither UKPX<sub>j</sub> data and APX<sub>j</sub> data have been published in respect of the relevant settlement period j then:

$$SPNIRP_j = SPNIRP_{j-1}$$

where:

SPNIRP<sub>j</sub> means the single price net imbalance volume reference price for each settlement period j.

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

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

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

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

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

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

(b) The term NIRP<sub>j</sub> shall be derived as follows:

(i) when  $TQEI_j < 0$

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

(ii) when  $TQEI_j > 0$

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

(iii) when  $TQEI_j = 0$

$$NIRP_j = 0$$

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

<b>PA1</b>	1.5
<b>PA2</b>	0.5



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

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

<b>(CSOC<sub>t</sub>) (£)</b>	<b>ISF<sub>t</sub></b>
< 56,880,216 ( $RI_t / Z_t$ )	0.40
=> 56,880,216 ( $RI_t / Z_t$ )	0.12

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

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

<b>(CSOC<sub>t</sub>) (£)</b>	<b>ISF<sub>t</sub></b>
< 55,869,013 ( $RI_t / Z_t$ )	0.60
=> 55,869,013 ( $RI_t / Z_t$ )	0.50

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

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

<b>(CSOC<sub>t</sub>) (£)</b>	<b>ISF<sub>t</sub></b>
< 57,753,517 ( $RI_t / Z_t$ )	0.50
=> 57,753,517 ( $RI_t / Z_t$ )	0.50

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

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

<b>(CSOC<sub>t</sub>) (£)</b>	<b>ISF<sub>t</sub></b>
< 57,567,216 (RI <sub>t</sub> / Z <sub>t</sub> )	0.40
=> 57,567,216 (RI <sub>t</sub> / Z <sub>t</sub> )	0.40

where RI<sub>t</sub> and Z<sub>t</sub> shall have the meaning ascribed to them in paragraph B12.

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

<b>(CSOC<sub>t</sub>) (£)</b>	<b>ISF<sub>t</sub></b>
< 60,656,843 (RI <sub>t</sub> / Z <sub>t</sub> )	0.40
=> 60,656,843 (RI <sub>t</sub> / Z <sub>t</sub> )	0.40

where RI<sub>t</sub> and Z<sub>t</sub> shall have the meaning ascribed to them in paragraph B12.

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

<b>Relevant Year Commencing 1 April</b>	<b>IMT<sub>t</sub> (£)</b>
2001	56,880,216 (RI <sub>t</sub> / Z <sub>t</sub> )
2002	55,869,013 (RI <sub>t</sub> / Z <sub>t</sub> )
2003	57,753,517 (RI <sub>t</sub> / Z <sub>t</sub> )
2004	57,567,216 (RI <sub>t</sub> / Z <sub>t</sub> )
2005	60,656,843 (RI <sub>t</sub> / Z <sub>t</sub> )

where RI<sub>t</sub> and Z<sub>t</sub> shall have the meaning ascribed to them in paragraph B12.

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

<b>Relevant Year Commencing 1 April</b>	<b><math>NSOC_t</math></b>
2001	21,698,749 ( $RI_t / Z_t$ )
2002	21,165,761 ( $RI_t / Z_t$ )
2003	20,602,773 ( $RI_t / Z_t$ )
2004	20,120,580 ( $RI_t / Z_t$ )
2005	19,496,842 ( $RI_t / Z_t$ )

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

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

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

where:

$SORate_t$  is given by the table below;

<b>Relevant Year commencing 1 April</b>	2000	2001	2002	2003	2004	2005
<b><math>SORate_t</math></b>	0	1,000,000	1,000,000	1,000,000	1,000,000	1,100,000

and:

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

- B9. For the purpose of paragraph 14 of Part 2(ii) of special condition AA5A, the term  $PSC_t$  (being the costs incurred by the licensee in preparing participants' systems for the introduction of the New Electricity Trading Arrangements to be recovered under the balancing services activity) shall have the value given by the following formula:

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

where:

$PSAC_t$  is given by the table below:

<b>Relevant Year commencing on 1 April</b>	2000	2001	2002	2003	2004	2005
<b><math>PSAC_t</math></b>	0	4,200,000	0	0	0	0

and:

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

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

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

where:

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

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

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

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

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

where:

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

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

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

Z<sub>t</sub> has the value against relevant year t in the following table:

<b>Relevant year t Commencing 1 April</b>	<b>Z<sub>t</sub></b>
2001	175.17
2002	178.67
2003	182.25
2004	185.89
2005	189.61

and

RI<sub>t</sub> shall have the value Z<sub>t</sub> until such time as the Retail Price Index for the last month of each relevant year t is known when it shall be the arithmetic average of the Retail Price Indices in respect of each month of each relevant year t.

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

B13. For the purpose of paragraph 15 of Part 2(ii) of special condition AA5A, the term CSF<sub>Mt</sub> shall have the value:

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

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

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

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

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

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

where:

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

respect of each month of the relevant year commencing on 1 April 2001.

and

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

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

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

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

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

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

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

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

where:

$RI_t$  and  $Z_t$  shall have the meanings ascribed to them in paragraph B12 and RN shall have the meaning ascribed to it in paragraph B13.

## **SCHEDULE 1: SPECIFIED AREA**

Great Britain.



## **SCHEDULE 2: REVOCATION**

1. The Authority may at any time revoke the licence by giving not less than 30 days' notice (24 hours' notice, in the case of a revocation under sub-paragraph 1(f) 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 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 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 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:
  - (i) has ceased to carry on the transmission business;
  - (ii) has not commenced carrying on the transmission business within 5 years of the date on which the licence comes into force;
- (f) 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 1989 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
- (g) 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(f)(i), section 123(1)(a) of the Insolvency Act

1989 shall have effect as if for "£750" there was substituted "£250,000" 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 subparagraph 1 (f)(i) if any such demand as is mentioned in section 123(1)(a) of the Insolvency Act 1989 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.