

Appendix 2: Modifications to SPTL's licence to implement the BETTA proposals

NOTICE UNDER SECTION 11(2) OF THE ELECTRICITY ACT 1989

The Gas and Electricity Markets Authority (the "Authority") hereby gives notice pursuant to Section 11(2) of the Electricity Act 1989 (the "Act") as follows:

1. The Authority proposes to modify the conditions of the transmission licence ("the Transmission Licence") treated as granted to SP Transmission Ltd (SPTL) under Section 6(1)(b) of the Act by:
 - a) modifying special licence condition J, to adjust the level of SPTL's maximum regulated transmission revenue to apply from 1 April 2005 and to introduce further revenue adjustment factors which are necessary as a consequence of the introduction of the British electricity trading and transmission arrangements ("BETTA")
 - b) modifying special licence condition J, to introduce a revenue adjustment factor necessary as a consequence of the introduction of rolling incentive arrangements
 - c) introducing special licence condition J1 to provide for the provision of information to the system operator
 - d) introducing special licence condition J2 to provide for the licensee to prepare a statement on the basis of transmission owner charges
 - e) introducing special licence condition J3 to provide for the determination of the capital contribution repayment adjustment
 - f) modifying special licence condition L, to remove a reporting term not relevant under the new price controls
 - g) introducing special licence condition L1 to provide for the reporting of capital expenditure
 - h) introducing special licence condition L2 to provide for transmission losses reporting
 - i) modifying special licence condition N, to reflect the termination of the revised revenue restrictions on 31 March 2007
 - j) modifying Schedule A to the Transmission Licence to define those services which are excluded services under BETTA and to reflect revised document references,
 - k) introducing Schedule B to specify the values of certain revenue adjustment factors in special licence condition J
 - l) modifying special licence condition I to insert new definitions which are necessary and to remove existing definitions which are no longer necessary as a result of the modifications proposed above.
2. The modifications referred to in paragraph 1 are set out in Annex 1. The amendments (which for the avoidance of doubt includes deletions), are marked as against the relevant conditions of SPTL's Transmission Licence as at 1

September 2004.

3. For the avoidance of doubt, no modifications are being proposed to any other paragraphs of special conditions I,J,L,N or to Schedule A. As such, nothing in these proposed modifications alters the text of these paragraphs.
4. Respondents should note that on 22 February 2005 the Authority issued a separate notice pursuant to section 11(2) of the Act relating to proposed modifications to SPTL's Transmission licence if the introduction of BETTA is significantly delayed from the 1 April 2005 ("Second Notice"). The Second Notice should be considered in conjunction with this Notice.
5. Subject to the outcome of this statutory consultation, consideration of respondents' views and the consent of SPTL being given, it is the intention of the Authority to direct that these proposed modifications to have effect on and from 00:00 hours on the BETTA go-live date, being the date which the Secretary of State indicates in a direction shall be the BETTA go-live date.
6. The reasons why the Authority proposes to make these licence modifications have been published by the Authority. The reasons are set out in a document entitled "Transmission price controls and BETTA: Final proposals and impact assessment"¹ and in associated consultations².
7. In summary, the effect of the modifications referred to in paragraph 1 above is:
 - ◆ to adjust the maximum regulated transmission revenue of SPTL for 2005/6 and 2006/7 following the completion of a periodic review; and
 - ◆ to further adjust the maximum regulated transmission revenue of SPTL as necessary as a consequence of the introduction of BETTA.
8. Copies of the proposed licence modification and the documents referred to in paragraph 6 are available (free of charge) from the Ofgem Library, 9 Millbank, London SW1P 3GE (020 7901 7003) or on the Ofgem website (www.ofgem.gov.uk).
9. Any representations or objections to the proposed licence modification should be received by 5 pm on 22 March 2005 and sent to:

David Halldearn

¹ ~~Transmission price controls and BETTA: Final proposals and impact assessment~~, Ofgem 279/04, December 2004. The impact assessment has been re-published in February 2005.

² Price controls and incentives under BETTA, An Ofgem/DTI consultation, Ofgem 130/03, October 2003
Review of transmission price controls from 2005: SP Transmission Ltd, Scottish Hydro-Electric
Transmission Ltd, Initial thoughts, Ofgem 52/04, March 2004
~~Transmission price controls and BETTA: Update~~, Ofgem 107/04, May 2004
~~Transmission price controls and BETTA: Draft Proposals~~, Ofgem 182/04, July 2004

Director, Scotland and Europe
Ofgem
9 Millbank
London
SW1P 3GE

or by e-mail to BETTA.consultationresponse@ofgem.gov.uk marked 'Transmission price controls and BETTA: section 11 licence modifications'.



David Haldearn
duly authorised on behalf of the Authority.

22 February 2005

ANNEX 1 TO THE NOTICE UNDER SECTION 11(2) OF THE
ELECTRICITY ACT 1989 IN RESPECT OF SP TRANSMISSION LTD

Special Condition I: Definitions

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

~~"average charge per regulated unit transmitted"~~

~~means the regulated transmission revenue in the relevant year divided by the regulated quantity transmitted in that year.~~

"average specified rate"

~~means the average of the daily base rates of Governor and Company of the Bank of Scotland (or such other bank as the Authority shall specify from time to time)~~Barclays Bank plc current from time to time during the period in respect of which the calculation falls to be made.

"BETTA"

means the British electricity trading and transmission arrangements which are provided for in Chapter 1 of Part 3 of the Energy Act 2004

" charge restriction conditions"

means Special Conditions I to N inclusive together with ~~Schedule~~Schedules A and B to this licence, as from time to time modified or replaced in accordance with the provisions of the Act.

"excluded services"

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

~~"maximum average charge per regulated unit transmitted"~~

~~means the maximum average charge per regulated unit transmitted by the licensee for relevant year commencing on 1 April 1999 calculated in accordance with the formula in paragraph 2.1 of the Schedule 5 of the version of the licence in force (or deemed to be in~~

~~force) as at 31 March 2000.~~

"maximum regulated transmission revenue"

means the regulated transmission revenue of the licensee calculated in accordance with the formula contained in Special Condition J (Restriction of Transmission Charges).

"metered"

means in relation to any quantity of units of electricity transmitted, as measured by a meter installed for such purpose or (where no such meter is installed) as otherwise reasonably calculated.

"network rates"

means rates levied on transmission network assets and excluding general and national business rates and rates for water supply and sewerage services.

"notified value"

means, in relation to any term, such value as the Secretary of State shall ascribe to that term in a written notice given to the licensee as soon as practicable after the date of grant of this licence.

"outage change"

has the meaning given in Schedule A.

~~"regulated quantity transmitted"~~

~~means the aggregate quantity of units transmitted through the licensee's transmission system in that relevant year metered at exit points on leaving the licensee's transmission system.~~

"regulated transmission revenue"

means the revenue (measured on an accruals basis) derived from the provision of transmission owner services (including to any separate business, other than the transmission business) in the relevant year, after deduction of value added tax (if any) and any other taxes based directly on the amounts so derived.

"regulated unit transmitted"	means any unit within the regulated quantity transmitted.
"relevant year"	means a financial year commencing on or after 1 April 1990.
"relevant year t"	means that relevant year for the purposes of which any calculation falls to be made.
"relevant year t-1"	means the relevant year preceding relevant year t or, in respect of the period prior to 1 April 1990, the period of 12 calendar months commencing on 1 April 1989; and similar expressions shall be construed accordingly.
"transmission <u>owner</u> services"	means all services provided as part of the transmission business other than excluded services.
"unit"	means a kilowatt hour.

Special Condition J. Restriction of transmission charges

Basic Formula

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

$$TR_t = R_t - KK_{Tt} + LF_t + EI_t + BI_t + EC_t + CC_t + IAT_t + IAAC_t$$

where:

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

R_t in relation to the relevant year commencing 1 April ~~2000~~, 2005, shall have a value equal to £~~114.36 million~~ 138,084,000 and in relation to any subsequent relevant year the value of it shall be derived from the following formula:

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

where

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

determined with respect to the same months in relevant year t-2.

X_T means 0.

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

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

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

~~where~~

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

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

~~Q_{t-1} — has the value 30,300 (which represents the regulated quantity transmitted (expressed in GWh) by the licensee in relevant year commencing 1 April 1999).~~

~~T_{t-1} means the maximum average charge per regulated unit transmitted in relevant year commencing 1 April 1999; as determined in accordance with Schedule 5 of the form of ScottishPower's transmission licence in force as at 31 March 2000; and (b) — in subsequent relevant years~~ KK_{Tt} is to be derived from the following formula:

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

where:

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

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

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

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

$$LF_t = LP_t - LA_t + NR_t - NRA_t$$

where:

LP_t means an amount equal to the payments made by the licensee, in the relevant year t , in accordance with its obligations set out in Standard Licence Condition ~~4 or, in respect of the eleventh relevant year, payments attributed to the transmission business of the predecessor company of the licensee holder in respect of payments made to the Director General of Electricity Supply under the licence condition entitled 'Payment of fees' in the Generation, Transmission and Public Electricity Supply Licence of the predecessor company.~~ A4 (Payments to the Authority).

LA_t is derived from the following formula:

$$LA_t = PF_t \cdot PIF_t$$

PF_t means, in respect of each relevant year, the amount given in the table appearing under that term in ~~the part of Annex A to this Condition~~ paragraph B1 of Schedule B that applies to the licensee.

PIF_t is derived from the following formula:

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

where for the ~~ninth relevant year~~ commencing 1 April 2005 PIF_t equals 1.

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

NR_t means an amount equal to the network rates payments made by the licensee, in the relevant year t.

NRA_t is derived from the following formula:

$$\text{NRA}_t = \text{NRE}_t \cdot \text{PIF}_t$$

NRE_t means the amount specified for the relevant period t in the table in paragraph B2 of Schedule B.

EI_t is derived from the following formula:

$$\text{EI}_t = \text{EIA}_t \cdot \text{PIF}_t$$

EIA_t means, in respect of each relevant year, the amount given in the table appearing under that term in paragraph B6 of Schedule B that applies to the licensee.

BI_t means the amount specified for the relevant period t in paragraph B3 of schedule B.

EC_t means the amount specified for the relevant period t in paragraph B4 of Schedule B.

CC_t means the amount specified for the relevant period t in paragraph B5 of Schedule B.

IAT_t means, in respect of each relevant year, the amount of costs and/or expenses caused or saved by an income adjusting event calculated in accordance with paragraphs 2 to 4.

IAAC_t means the capital repayment income adjustment, being the quantity determined by the Authority calculated in accordance with Special Condition J3.

2. (a) An income adjusting event in relevant year t may arise from any of the following:

- i) an event or circumstance constituting force majeure under the STC;
- ii) an event or circumstance resulting from an amendment to the STC not allowed for in setting the allowed revenues of the licensee for the relevant year t; and
- iii) an event or circumstance other than listed above which is, in the opinion of the Authority, an income adjusting event and is approved by it as such in accordance with paragraph 4 of this licence condition where the event or circumstance has, for relevant year t, increased or decreased relevant costs and/or expenses by more than £1,000,000 (the “STC threshold amount”).

(b) For the purpose of relevant year t commencing on 1 April 2005 and ending on 31 March 2006, events or circumstances arising directly from the implementation or otherwise of the following proposed amendments (both the original and any alternative) listed in table 1 below shall not qualify as an income adjusting event for the purpose of paragraph 2(a) above:

Table 1:

<u>Amendment No.</u>	<u>Amendment Title</u>

3. Notice of proposed income adjusting event

- (a) Where the licensee considers, and can provide supporting evidence that, in respect of relevant year t, there have been costs and/or expenses that have been incurred or saved by an income adjusting event, then the licensee shall give notice of this event to the Authority.
- (b) A notice provided to the Authority under paragraph 3(a) shall give particulars of:

 - (i) the event to which the notice relates and the reason(s) why the licensee considers this event to be an income adjusting event;
 - (ii) the amount of any change in costs and/or expenses that can be demonstrated by the licensee to have been caused or saved by the event and how the amount of these costs and/or expenses has been calculated;
 - (iii) the amount of any allowed income adjustment proposed as a consequence of that event and how this allowed income adjustment has been calculated; and
 - (iv) any other analysis or information which the licensee considers to be sufficient to enable the Authority and the relevant parties referred to in subparagraph 4(a) to fully assess the event to which the notice relates.
- (c) If the Authority considers that the analysis or information provided in sub-paragraphs 3(b)(i) to 3(b)(iv) above is insufficient to enable both the Authority and the relevant parties referred to in subparagraph 4(a) to assess whether an income adjusting event has occurred and/or the amount of any allowed income adjustment that should be approved, the Authority can request that the supporting evidence be supplemented with additional information that it considers appropriate.

- (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, in any event, not later than three months after the end of the relevant year in which it occurs.
- (e) The Authority will make public, excluding any confidential information, any notice of an income adjusting event following its receipt.
- (f) Any notice submitted to the Authority under paragraph 3(a) above should clearly identify whether any of the information contained in the notice is of a confidential nature. The Authority shall make the final determination as to confidentiality having regard to:
 - (i) the need to exclude from disclosure, so far as is reasonably practicable, information whose disclosure the Authority considers would or might seriously prejudicially affect the interests of a person to which it relates; and
 - (ii) the extent to which the disclosure of the information mentioned in sub-paragraph 3(f)(i) is necessary for the purposes of enabling the relevant parties to fully assess the event to which the notice relates.

4. The Authority's determination

- (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 3(a) were caused or saved by an income adjusting event;
 - (ii) whether the event or circumstance has increased or decreased the relevant costs and/or expenses by more than the STC threshold amount;

- (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; and
- (iv) the periods, if any, over which the amounts should apply.

(b) In relation to the relevant year t, the allowed income adjustment (IAT_t) shall be:

- (i) the value determined by the Authority under paragraph 4(a) above; or
- (ii) if the Authority has not made a determination under paragraph 4(a) above within three months of the date on which notice of an income adjusting event was provided to the Authority, the amount of the allowed income adjustment proposed as a consequence of the event in the notice given to the Authority under sub-paragraph 3(b)(iii); or
- (iii) in all other cases zero, including situations where the Authority has not made a determination under paragraph 4(a) above within three months of the date on which notice of an income adjusting event was provided to the Authority and the Authority has, before the end of that three month period, informed the licensee that the Authority considers that the analysis or information provided in accordance with paragraphs 3(b) and/or 3(c) is insufficient to enable the Authority to assess whether an income adjusting event has occurred and/or the amount of any allowed income adjustment.

(c) The Authority's decision in relation to any notice given under paragraph 3(a) shall be in writing, shall be copied to the licensee and shall be in the public domain.

(d) The Authority may revoke an approval of an income adjusting event and allowed income adjustment with the consent of the licensee, following consultation with the licensee and relevant parties. Revocation of any income adjusting event and allowed income adjustment shall be in writing, shall be copied to the licensee and shall be in the public domain.

Special condition J1: Provision of information to the system operator

1. On or before 1 November of the relevant year t-1, the licensee shall notify the system operator of its best estimates for the amounts TSP_t and $TSPN_t$ in respect of the relevant year t, where:

TSP_t means an amount no more than $TR_t - BI_t - EXS_t$

$TSPN_t$ means an amount no more than BI_t

where EXS_t means the connection charges, if any, which are remunerated under Special Condition J in respect of connections made after the grant of this licence and for the avoidance of doubt, such charges may include charges for the operation and maintenance of the relevant connection,

and where the aggregate of TSP_t , $TSPN_t$ and EXS_t is equivalent to the regulated transmission revenue of the licensee in relevant year t.

2. The licensee shall keep under review the estimates notified to the system operator pursuant to paragraph 1 and, if at any time, the licensee reasonably considers that the values of TSP_t or $TSPN_t$ notified to the system operator will be significantly different from the estimates previously notified to the system operator, the licensee shall notify the system operator of the updated values for TSP_t or $TSPN_t$ as soon as reasonably practicable.
3. By 30 April of each relevant year t, the licensee shall provide the Authority with a statement showing the following:
 - a) the values of TSP_t and $TSPN_t$ notified to the system operator in the relevant year t-1 and the method of calculation including the values for EXS_t ;
 - b) the aggregate amounts of the licensee's connection charges in relevant year t-1 which are remunerated under Special Condition J, identifying separately amounts in relation to connections made prior to the grant of this licence and amounts in relation to connections made after the grant of this licence;

- c) the aggregate amount of the licensee's connection charges in relevant year t-1 which are not remunerated under Special Condition J; and
- d) the aggregate amount of the licensee's charges in relevant year t-1 in respect of outage charges.

Special Condition J2: Basis of transmission owner charges

1. The licensee shall as soon as practicable after this licence has come into force and, in any event, not later than such date as the Authority shall specify prepare a statement approved by the Authority setting out the basis upon which charges will be made
 - (a) for transmission owner services;
 - (b) for connection to the licensee's transmission system, such statement to be in such form and to contain such detail as shall be necessary to enable the system operator to make a reasonable estimate of the charges to which it would become liable for the provision of such services, and (without prejudice to the foregoing) including such of the information set out in paragraph 2 as is required by such paragraph to be included in the relevant statement; and
 - (c) for outage changes.
2. The statement referred to in paragraph 1 shall in respect of connections to the licensee's transmission system include:
 - (a) a schedule listing those items (including the carrying out of works and the provision and installation of electric lines or electrical plant or meters) of significant cost liable to be required for the purpose of connection (at entry or exit points) to the licensee's transmission system for which site specific charges may be made or levied and including (where practicable) indicative charges for each such item and (in other cases) an explanation of the methods by which and the principles on which such charges will be calculated;
 - (b) the methods by which and the principles on which site specific charges will be made in circumstances where the electric lines or electrical plant to be installed are (at the licensee's discretion) of greater size or capacity than that required;

(c) the methods by which and the principles on which any charges (including any capitalised charge) will be made for maintenance, replacement and repair required of electric lines, electrical plant or meters provided and installed for making a connection to the licensee's transmission system;

(d) the methods by which and the principles on which any charges will be made for disconnection from the licensee's transmission system and the removal of electrical plant, electric lines and ancillary meters following disconnection; and

(e) such other matters as shall be specified in directions issued by the Authority from time to time for the purpose of this condition.

3. Site specific charges for those items referred to in paragraph 2 shall be set at a level which will enable the licensee to recover;

(a) the appropriate proportion of the costs directly or indirectly incurred in carrying out any works, the extension or reinforcement of the licensee's transmission system or the provision and installation, maintenance, replacement and repair or (as the case may be) removal following disconnection of any electric lines, electrical plant, meters or other items; and

(b) a reasonable rate of return on the capital represented by such costs.

4. In addition to, and without prejudice to, the licensee's obligations under paragraph 1, the licensee shall, upon being directed to do so in directions issued by the Authority from time to time for the purposes of this condition and within such period as shall be specified in the directions, prepare a statement or statements approved by the Authority providing that charges

(a) for transmission owner services;

(b) for connection to the licensee's transmission system; and

(c) for outage charges

will be made on such basis as shall be specified in the directions and such statement or statements shall be in such form and contain such detail as shall be necessary to enable the system operator to make a reasonable estimate of the charges to which it would become liable for the provision of such services and (without prejudice to the foregoing) including such information as shall be specified in the directions. Each statement prepared in accordance with this paragraph shall, with effect from the date on which it is approved by the Authority or such later date as the Authority shall specify, replace the corresponding statement prepared by the licensee in accordance with paragraph 1 or, as the case may be, this paragraph (as from time to time revised in accordance with paragraph 5) which is in force at such date and the licensee shall, with effect from such date make charges in accordance with the statement (as from time to time revised in accordance with paragraph 5) which has replaced such corresponding statement.

5. The licensee may periodically revise the statements in accordance with paragraphs 1 and 4 and shall, at least once in every year this license is in force, make any necessary revisions to such statements in order that the information set out in the statements shall continue to be accurate in all material respects.
6. The licensee shall send a copy of the statements prepared in accordance with paragraphs 1 and 4, and of each revision of such statements in accordance with paragraph 5, to the Authority. Each such revision shall require to be approved by the Authority and shall not become effective until approved by the Authority.
7. The licensee shall give or send a copy of the statements prepared in accordance with paragraphs 1 and 4 or (as the case may be) of the latest revision of such statements in accordance with paragraph 5 approved by the Authority pursuant to such paragraph to any person who requests a copy of such statement or statements.
8. The licensee may make a charge for any statement given or sent pursuant to paragraph 7 of an amount reflecting the licensee's reasonable costs of

providing such a statement which shall not exceed the maximum amount specified in directions issued by the Authority for the purposes of this condition.

Special Condition J3: Capital contribution repayment adjustment

1. In this Special Condition “capital contribution repayment” means the repayment of contributions made to the licensee by customers in respect of the provision of connections, such a repayment consequent on the introduction of BETTA.

2. On or before 1 November 2005 the licensee shall notify the Authority of its best estimates of:

(a) the gross adjustment to TR_t in the relevant year t commencing on 1 April 2006 that would ensure that the financial position and performance of the licensee are, insofar as is reasonably practicable, the same as if the capital contribution repayments had not been made and the aggregate of the amounts CC_t in relation to the years commencing on 1 April 2005 and 1 April 2006 had been zero;
and

(b) the net adjustments to TR_t in the relevant year t commencing on 1 April 2006 being the gross adjustment as determined in sub-paragraph (a) less the aggregate of the amounts CC_t specified in paragraph B5 of Schedule B in relation to the years commencing on 1 April 2005 and 1 April 2006 taking into account the years in which such amounts apply.

2. On or before 31 May 2006, the licensee shall furnish to the Authority a capital contribution repayment statement containing:

(c) the values of CCA5, CCA6, CPR, CCA, CCN, IE, 15, 16

where

CCA5 means in respect of the relevant year commencing on 1 April 2005, the sum of the annual payments made to the licensee by the system operator in respect of connections to the licensee’s

transmission system where the licensee has made capital repayments and where the person connected to the licensee's transmission system has chosen to make annual payments for the connection.

CCA6 means in respect of the relevant year commencing on 1 April 2006, the sum of the annual payments made to the licensee by the system operator in respect of connections to the licensee's transmission system where the licensee has made capital repayments and where the person connected to the licensee's transmission system has chosen to make annual payments for the connection.

CPCR means the total amount of capital repayments provided for when the price control was initially set.

CCA means the total amount of capital repayments made in relation to connections to the licensee's transmission system (excluding interest payments on such capital repayments).

CCN means the sum of all capital payments made to the licensee by the system operator in respect of connections where the licensee has made capital repayments.

IF means the average annual rate of interest (expressed in real terms) represented by interest payments made or accrued over the period 1 April 2005 to 31 March 2006 in respect of capital repayments made after 1 April 2005.

15 means the sum of all interest payments made or accrued by the licensee in the year commencing 1 April 2005 in respect of capital repayments made after 1 April 2005.

16 means the sum of all interest payments made or accrued by the licensee in the year commencing 1 April 2006 in respect of capital repayments made after 1 April 2005.

(d) the licensee's best estimate of the gross adjustment to TR_t in the relevant year t commencing on 1 April 2006 that would ensure that the financial position and performance of the licensee are, insofar as is reasonably practicable, the same as if the capital contribution repayments had not been made and the aggregate of the amounts CC_t in relation to the years commencing on 1 April 2005 and 1 April 2006 had been zero.

(e) the licensee's best estimate of the net adjustments to TR_t in the relevant year t commencing on 1 April 2006 being the gross adjustment as determined in sub-paragraph (b) less the aggregate of the amounts CC_t in paragraph B5 of Schedule B in relation to the years commencing on 1 April 2005 and 1 April 2006 taking into account the years in which such amounts apply.

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3. The statement referred to in the preceding paragraph shall be accompanied by:

PF_t

(a) audited statements that the costs properly reflect the amounts repaid to person connected to the licensee's transmission system and represent the portion of the value of the assets paid for by the person connected to the licensee's transmission system as part of a connection agreement between the person connected to the licensee's transmission system and the licensee appropriate to the remaining useful life of the assets and showing the method of calculation; and

2000/01	£0.290 millions
2001/02	£0.284 millions
2002/03	£0.276 millions

2003/04 ————— £0.270 millions

2004/05 ————— £0.262 millions

(b) a statement certified by a person with authority to do so on behalf of the licensee that to the best of his knowledge, information and belief, having made all reasonable enquiries, that the estimates provided under paragraphs 2(b) and 2(c) include all payments made and received in relation to the repayment of capital contributions.

~~subsequent relevant years~~ — £0.262 millions

4. (a) The Authority shall determine (after consultation with the licensee and such other persons as it considers desirable):

- (i) the actual amount of capital contribution repayments and any interest payments made in relation to capital contribution repayments;
- (ii) the amount by which the actual aggregate amount of capital contribution repayments and the timing of such repayments differ from the assumptions that the assumed aggregate amount of capital contribution repayments is £60.1 million (2002/3 prices) and that the assumed date of repayments is 1 April 2005;

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- (iii) the gross adjustment to TR_t in the year t commencing on 1 April 2006 that would ensure that the financial position and performance of the licensee are, insofar as is reasonably practicable, the same as if the capital contribution repayments had not been made and no allowance had been made for such repayments in TR_t ;

PF_t

- (iv) the net adjustment to TR_t in the year t commencing on 1 April 2006 being the gross adjustment as determined in subparagraph (iii) less the aggregate of the amounts CC_t in relation to the years commencing on 1 April 2005 and 1 April 2006 taking into account the year in which such amounts

apply; and

(v) the relevant years, if any, over which the net adjustment amount calculated in sub-paragraph (iv) should be paid or received (as the case may be), and the amounts to apply in each relevant year.

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

(b) In relation to the relevant year t , the capital contribution repayment adjustment $IAAC_t$ shall be:

(i) the value determined by the Authority under subparagraph (a) (v); or

~~subsequent relevant years~~ ~~£0.084 millions~~

(ii) in any other case, zero.

Special Condition K: Restriction of transmission charges: adjustments

No amendments are proposed to paragraphs 1-3 inclusive of this Special Condition.

Nothing in this text alters the operation of this Special Condition.

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

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

- (a) whether or not the provisions of Special Condition K (Restriction of transmission charges: adjustments) are likely to be applicable in consequence of the regulated transmission revenue in the preceding relevant year t-1 or the two preceding relevant years t-1 and t-2; and
 - (b) its best estimate as to the relevant correction factor KK_{Tt} calculated in accordance with the formula set out in Special Condition J (Restriction of Transmission Charges) to be applied in calculating the maximum regulated transmission revenue in respect of relevant year t.
- 5. Not later than three months after the end of each relevant year the licensee shall send to the Authority a statement, in respect of that relevant year, showing the specified items referred to in paragraph 7.
- 6. The statement referred to in the preceding paragraph shall be:
 - (a) accompanied by a report from the Auditors that in their opinion such statement fairly presents each of the specified items referred to in paragraph 7 in accordance with the requirements of the charge restriction conditions and that the amounts shown in respect of each of the specified items are in accordance with the licensee's accounting records which have been maintained in respect of the transmission business in accordance with standard condition ~~5B1~~ (Regulatory ~~Accounts~~accounts); and
 - (b) certified by a director of the licensee on behalf of the licensee that to the best of his knowledge, information and belief after having made all reasonable inquiries:
 - (i) there is no amount included in its calculations under Special Condition J (Restriction of transmission charges) and Schedule A which represents other than bona fide consideration for the provision of transmission owner services the revenue from

which is regulated under Special Conditions I to N and Schedule A;

- (ii) no service has been treated as an excluded service other than a service permitted to be so treated in accordance with Schedule A; and
- (iii) no amount included in the revenues stated in respect of excluded services represents other than bona fide consideration for the provision of the excluded service to which it relates.

7. The specified items to be shown in the statement referred to in paragraph 5 shall be the following:

~~(a) the regulated quantity transmitted;~~
(a) [no longer used]

(b) [no longer used]

(c) the regulated transmission revenue;

(d) the nature of all services provided as part of the transmission business and treated as excluded services, together with a statement of the revenues derived from each service so treated;

(e) [no longer used]

(f) [no longer used]

(g) the details referred to in paragraph 5 of Special Condition M (Allowances in respect of security costs);

- (h) the value of the term LF_1 together with the value of each of its component parts, as detailed in paragraph 1 of special condition J (Restriction of transmission charges); and
 - (i) such other items as shall be specified in directions issued by the Authority for the purposes of Special Conditions I to N -
8. Where the Authority issues directions in accordance with paragraph 6 of Special Condition M (Allowances in respect of Security costs) or paragraph 7 of Schedule A (Supplementary provisions of the charge restriction conditions), the licensee shall, if so required by the Authority and within such period as the Authority shall specify, send to the Authority a revised statement in substitution for the licensee's statement under paragraph 5 in respect of the relevant year in question and such revised statement shall give effect to such directions.

Standard Condition L1: Price Control Review Information

Part A: Application and purpose

1. This condition takes effect on 1 April 2005 and applies in respect of the price control review information of the licensee relating to the relevant year commencing 1 April 2005 and each succeeding relevant year for the purposes set out in paragraph 2.
2. Those purposes are:
 - (a) to ensure that the licensee maintains (and secures that any affiliate or related undertaking of the licensee maintains) such accounting records, other records, and reporting arrangements as are necessary to enable the licensee to prepare and submit price control review information reasonably requested in accordance with the requirements of this condition; and
 - (b) to facilitate any review or modification by the Authority to Special Conditions I to N together with Schedule A and B to this licence ("a price control review").

Part B: Preparation of price control review information

3. Unless the Authority otherwise consents, the licensee must:
 - (a) keep or cause to be kept for a period of not less than five years such accounting and other records as the licensee reasonably considers appropriate so that the information specified in paragraph 5 ("price control review information") of, or reasonably attributable to, the transmission business is separately identifiable in the accounting records of the licensee (and of any affiliate or related undertaking of the licensee) from that of any other business of the licensee; and
 - (b) prepare a report, in a form approved by the Authority, which includes the price control review information, such price control review information to be

prepared on a consistent basis from the accounting and other records specified in subparagraph (a) in respect of each relevant year.

Part C: Delivery of price control review information

4. Unless the Authority otherwise consents, on or before 31 July in the relevant year t, the licensee shall provide the Authority with the report specified in paragraph 3(b).

Part D: Price Control Review information

5. Unless the Authority otherwise consents, price control review information comprises the following information related to capital expenditure incurred or expected to be incurred by the licensee in the transmission business of the licensee carried on within its transmission area:

(a) Project listings:

- (i) a list of the projects on which expenditure is being incurred in relevant year t;
- (ii) for each of the projects included in the list provided under sub-paragraph (i), the reason for including the project on the list in terms of the benefit to users of the transmission system, including in terms of reliability, security and efficiency; and

- (b) for each of the projects listed in sub-paragraph (a) the following information shall be provided

- (i) the expected completion date for the project;
- (ii) the cost incurred prior to relevant year t;
- (iii) the costs expected to be incurred in relevant year t;
- (iv) the costs expected to be incurred in relevant year t+1 and each subsequent relevant year;

- (v) the type and quantity of the main transmission assets provided and the capability provided by the project;
- (vi) differences in project specification and cost from those forecast when the price on was set; and
- (vii) The reasons for any changes to the list of projects or the specification of projects provided as part of the price control review information in year t-1. In respect of the relevant year commencing 1 April 2005, such projects in relation to year t-1 shall be taken as the list of projects forecast when the relevant price control review was carried out; and
- (c) a reconciliation between the capital expenditure amounts specified under subparagraph (b) for relevant year t and the aggregate capital expenditure amounts reported in the regulatory accounts for relevant year t.

Special Condition L2: Transmission losses reporting

1. On or before 30 May in the relevant year t, the licensee shall provide to the Authority a transmission losses report, being a report which shall in relation to relevant years t-1 and t include in reasonable but not excessive detail:
 - (a) a description of the methodology used by the licensee to take transmission losses into account in the planning of the licensee's transmission system;
and
 - (b) a description of the actions taken or planned to be taken by the licensee intended to reduce the level of transmission losses on the licensee's transmission system as compared to the level of transmission losses which would otherwise arise had the relevant actions not been taken or planned to be taken.
2. In paragraph 1, "transmission losses" means the units of electricity unaccounted for on the licensee's transmission system measured as being the difference between the units of electricity metered on entry to the system and the units of electricity metered on leaving the system.

Special Condition M: Allowances in respect of security costs

No amendments are proposed to paragraphs 1-8 inclusive of this Special Condition.

Nothing in this text alters the operation of this Special Condition.

Special Condition N: Duration of charge restriction conditions

1. The charge restriction conditions shall apply so long as this licence continues in force but shall cease to have effect (in whole or in part, as the case may be) if the licensee delivers to the Authority a disapplication request made in accordance with paragraph 2 and:
 - (a) the Authority agrees in writing to the disapplication request; or
 - (b) their application (in whole or in part) is terminated by notice given by the licensee in accordance with either paragraph 4 or paragraph 5.
2. A disapplication request pursuant to this Condition shall
 - (a) be in writing addressed to the Authority;
 - (b) specify the charge restriction conditions (or any part or parts thereof) to which the request relates; and
 - (c) state the date from which the licensee wishes the Authority to agree that the specified charge restriction conditions shall cease to have effect.
3. Save where the Authority otherwise agrees, no disapplication following delivery of a disapplication request pursuant to this Condition shall have effect earlier than the date which is the later of:
 - (a) the date being not less than 18 months after delivery of the disapplication request; and,
 - (b) 31 March ~~2005~~ 2007.
4. If the Authority has not made a reference to the Competition Commission under Section 12 of the Act relating to the modification of the charge restriction conditions before the beginning of the period of 12 months which will end with the disapplication date, the licensee may deliver written notice to

the Authority terminating the application of such of the charge restriction conditions (or any part or parts thereof) as are specified in the disapplication request with effect from the disapplication date or a later date.

5. If the Competition Commission makes a report on a reference made by the Authority relating to the modification of the charge restriction conditions (or any part or parts thereof) specified in the disapplication request and such report does not include a conclusion that the cessation of such transmission charge restriction conditions, in whole or in part, operates or may be expected to operate against the public interest, the licensee may within 30 days after the publication of the report by the Authority in accordance with Section 13 of the Act deliver to it written notice terminating the application of such charge restriction conditions (or any part or parts thereof) with effect from the disapplication date or a later date.

Schedule A: Supplementary Provisions of the Charge Restriction Conditions

Part A: Excluded services

1. There may be treated as excluded services provided by the transmission business such services in respect of which charges are made:
 - (a) which fall within paragraph 6; or
 - (b) which:
 - (i) do not fall within paragraph 2; and
 - (ii) may be determined by the licensee as falling under one of the principles set out in paragraphs 3 to 5.
2. No service provided as part of the transmission business shall be treated as an excluded service in so far as it relates to the provision of services remunerated under ~~use of system charges~~ for transmission owner services in accordance with ~~Condition D8 of Part II (Basis of Charges for Use of System and Connection to System: Requirement for transparency)~~ special condition J2 (Basis of transmission owner charges) including (without prejudice to the foregoing):

~~(i) — the transport of electricity;~~

~~(i)~~ (i) the making available of transmission owner services

(ii) the carrying out of works for the installation of electric lines or electrical plant ~~(not otherwise payable in the form of connection charges)~~ for the purpose of maintaining or upgrading the licensee's transmission system ~~(not otherwise payable in respect of connections to the licensee's transmission system);~~

(iii) the carrying out of works or the provision of maintenance or repair ~~or other services~~ in relation to the licensee's transmission system for the purpose of enabling the licensee to comply with standard condition ~~7 (Licensee's Grid)~~ B12 (System Owner – Transmission Owner Code) and ~~Special Condition H~~ standard condition D3 (Transmission System Security Standard and

~~Quality of Service (Scotland)~~ system security standard and quality of service), the Electricity ~~Supply~~ Safety, Quality and Continuity Regulations ~~1988~~ 2002 or any regulations made under Section 29 of the Act or any other enactment relating to safety or standards applicable in respect of the transmission business ; and

- (iv) the provision, installation and maintenance of any meters, switchgear or other electrical plant ancillary to the ~~grant of use of system~~ making available of transmission owner services.

3. The whole or an appropriate proportion (as the case may be) of the charges of the type described in ~~Condition D8 of Part II (Basis of Charges for Use of System and Connection to System)~~ special condition J2 (Basis of transmission owner charges) and borne by any person as connection charges in respect of connections made after the grant of this licence ~~and not remunerated as part of the transmission owner services under Special condition J~~ may be treated as excluded services.
4. There may be treated as an excluded service charges for the relocation of electric lines or electrical plant and the carrying out of works associated therewith pursuant to a statutory obligation (other than under Section 9(2) of the Act) imposed on the licensee.
5. There may with the approval of the Authority be treated as an excluded service any service of a type not above referred to which:
 - (a) consists in the provision of services for the specific benefit of a third party requesting the same; and
 - (b) is not made available as a normal part of the transmission business remunerated ~~by use of system charges under Special Condition J~~.
6. Services may be regarded as excluded services where the charges are:
 - (a) the rental for transmission business assets hosting fibre-optic telecommunications systems and used by third parties; and

- ~~— (b) — made for the provision of capacity for transferring electricity across any part of any Upgrade;~~
- ~~— (c) — to Scottish Hydro Electric Transmission Limited for the provision of capacity for transferring electricity from its authorised transmission area to the Scottish interconnection;~~
- ~~— (d) — to the Scottish Hydro Electric Transmission Limited for the provision of capacity for transferring electricity across any part of the Scottish interconnection apart from any Upgrade;~~
- ~~— (e) — made for the provision of capacity for transferring electricity across any interconnection between Scotland and Northern Ireland.~~
- (b) the net costs reasonably incurred by the licensee as a result of any outage change.

7. Where the Authority is satisfied that, in light of the principles set out in paragraphs 3 to 6 inclusive, any service treated as being or not being an excluded service should not be so treated, the Authority shall issue directions to that effect, and such service shall cease to be treated as an excluded service with effect from the date of issue of such directions or (subject to paragraph 8 of Special Condition L (Information to be provided to the Authority in connection with the charge restriction conditions)) such other date as may be specified in the directions.

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

(a) a change to the outage plan requested by the licensee (the “original change”), and

(b) such changes notified to the licensee by the system operator which:

- i) the licensee and the system operator agree are necessary in order to give effect to the original change, or
- ii) where there is a failure to agree, the Authority determines are necessary in order to give effect to the original change; and

(c) without prejudice to subparagraphs (a) and (b) above, any change to the outage plan notified to the licensee by the system operator which the licensee and the system operator agree is not an outage change under this licence condition (a “non-chargeable outage change”).

8A Any revenues received by the licensee from the system operator in respect of a non-chargeable outage change shall not be regarded as excluded service revenues under this Schedule.

8B For the purposes of paragraph 8, “outage plan” and “week 49” shall have the same meanings as defined or used in the STC.

9. The charges referred to in paragraph 6(b) shall be those declared to the system operator by the licensee and which are agreed by the system operator, or where there is a failure to agree, as determined by the Authority following the provision by the licensee of such information as the Authority may reasonably request.

Schedule B. Terms used in the revenue restriction

B1 For the purpose of paragraph 1 of Special Condition J, the term PF_t in respect of the relevant year t shall be derived from the following table:

2005/6 £0

2006/7 £0

2007/8 £0 or such other amount as the Authority shall determine.

B2 For the purpose of paragraph 1 of Special Condition J, the term NRF_t in respect of the relevant year t shall be derived from the following table:

2005/6 £13,213,000

2006/7 £13,213,000

2007/8 £13,213,000 or such other amount as the Authority shall determine

earlier years zero.

B3 For the purposes of paragraph 1 of Special Condition J, the term BI_t in respect of the relevant year t shall be derived from the following table

2005/6 £2,924,000

2006/7 £2,383,000. $PIF_t + BIA_t$

2007/8 £0 or such other amount as the Authority shall determine

earlier years zero.

B3A BIA_t is to be derived from the following formula:

$$BIA_t = (BX - 4,874,000).PIF_t$$

where

BX means the total cost and/or expenses incurred by the licensee during the period 1 April 2002 to 31 March 2006 for the purposes of implementing BETTA (such costs having been adjusted by the RPI_t values for the relevant years t so as to express the relevant amounts in values appropriate to the relevant year commencing 1 April 2005) as determined by the Authority following the provision to it by the licensee of a BETTA implementation costs statement in accordance with paragraph B3B and such other information as the Authority may reasonably request.

B3B On or before 30 May 2006, the licensee shall furnish to the Authority a BETTA implementation costs statement containing:

- (a) the total costs and/or expenses incurred by the licensee during the period 1 April 2002 to 31 March 2006 for the purposes of implementing BETTA;
- (b) a breakdown of the total costs and/or expenses incurred by cost category and within each cost category, whether the cost was an internal or external cost;
- (c) a description of each cost category used in sub-paragraph (b);
- (d) an explanation of how the types of costs and/or expenses incurred in relation to each cost category was necessary or expedient to implement BETTA; and
- (e) where costs and/or expenses incurred have been apportioned between the activities undertaken by the licensee for the purposes of implementing BETTA and other business activities, the basis for the apportionment, attribution and/or allocation of these costs and/or expenses.

B3C The statement referred to in the preceding paragraph shall be:

- (a) accompanied by a report prepared by independent auditors which provides that:
 - i) in their opinion, the BETTA implementation costs statement fairly presents the total costs and/or expenses incurred by the licensee during the period 1 April 2002 to 31 March 2006 for the purposes of implementing BETTA;
 - ii) the breakdown of the total costs and/or expenses incurred by cost category and within each cost category whether the cost was an internal or external cost;
 - iii) the description of each cost category;
 - iv) the explanation of how the types of costs and/or expenses incurred in relation to each cost category was necessary or expedient to implement BETTA; and
 - v) the basis apportionment, attribution and/or allocation of costs and/or expenses between activities undertaken by the licensee for the purposes of implementing BETTA and other business activities; and
- (b) certified by a person with authority to do so on behalf of the licensee that to the best of his knowledge, information and belief, having made all reasonable enquiries, no cost is included in the statement other than costs permitted under B3B to be so included.

B4 For the purpose of paragraph 1 of Special Condition J, the term EC_t in respect of the relevant year t shall be derived from the following table:

<u>2005/6</u>	<u>£13,863,000</u>
<u>2006/7</u>	<u>£14,621,000, PIE_t</u>
<u>2007/8</u>	<u>£14,621,000.PIE_t or such other amount as the Authority shall determine</u>
<u>earlier years zero.</u>	

B5 For the purpose of paragraph 1 of Special Condition J, the term CC_t in respect of the relevant year t shall be derived from the following:

2005/6 £7,906,000

2006/7 £7,689,000.PIF_t

2007/8 £7,689,000.PIF_t or such other amount as the Authority shall
determine

earlier years zero.

B6 For the purpose of paragraph 1 of Special Condition J, the term EIA_t in respect of the relevant year t shall be derived from the following table:

2005/6 £0

2006/7 £0

2007/8 £0 or such other amount as the Authority shall
determine

earlier years zero.

8. — ~~For the purpose of this Schedule “Scottish interconnection” shall have the meaning given in standard condition D1 (Interpretation of Section D (Supplementary Standard Conditions for Scotland)) and “Upgrade” shall have the meaning given in Special Condition B (Basis of Charges for Use of Scottish Interconnection).~~