

To: National Grid Company plc

**MODIFICATION OF SPECIAL LICENCE CONDITIONS AA5, AA5A, AA5C AND SCHEDULE A TO THE LICENCE GRANTED OR TREATED AS GRANTED UNDER SECTION 6(1)(b) OF THE ELECTRICITY ACT 1989 AND NOTICE OF REASONS FOR DECISION UNDER SECTION 49A OF THE ELECTRICITY ACT 1989**

Whereas

1. National Grid Company plc, ("the Licence Holder") is the holder of a licence ("the Licence") granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 ("the Act").
2. Pursuant to section 11(2) of the Act, the Gas and Electricity Markets Authority ("the Authority") gave notice ("the Notice") on 22 February 2005 that it proposed to modify:
  - (a) special licence condition AA5A (Part 1), to adjust the level of NGC's maximum revenue as a consequence of the introduction of the British Electricity Trading Arrangements ("BETTA") and to introduce further revenue adjustment factors which are necessary as a consequence of the introduction of BETTA
  - (b) special licence condition AA5A (Part 2(ii)), to introduce further revenue adjustment factors which are necessary as a consequence of the introduction of BETTA into the formula for calculating the aggregate of all internal costs associated with the balancing services activity
  - (c) special licence condition AA5A (Part 2(iii)), to adjust paragraph numbering
  - (d) special licence condition AA5A, to introduce Part 2 (iv) to provide for arrangements in relation to outages on the transmission systems in Scotland
  - (e) special licence condition AA5C, to introduce arrangements for transmission losses reporting
  - (f) part A of Schedule A to the Licence to amend references to other parts of the Licence and to define those services which are excluded services under BETTA
  - (g) part B of Schedule A to the Licence to introduce new targets for the incentivised internal costs associated with NGC's balancing services activity internal costs which are necessary as a consequence of the introduction of BETTA
  - (h) special licence condition AA5, to insert new definitions which are necessary as a result of the modifications proposed.

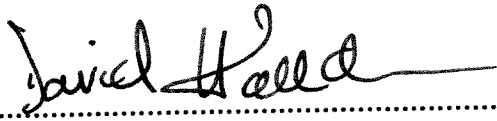
and any representations or objections were required to be made on or before 22 March 2005.

3. The Authority gave notice of its intention to make the modifications to the Secretary of State and has not received a direction not to make the modifications.
4. No representations or objections were received. The Licence Holder has consented to the modifications subject to correction of typographical errors in relation to paragraph numbering. These have been corrected in the attached Schedule. The Authority considers these to be non-material and is proposing to make the modifications without repeated consultation.
5. Pursuant to section 49A of the Act, the reasons for making the licence modifications are those stated in the Notice.

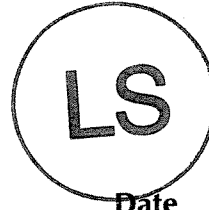
**Now therefore**

In accordance with the powers contained on section 11(1) of the Act, the Authority hereby modifies the Licence of the Licence Holder in the manner specified in the attached Schedule with effect on and from the BETTA go-live date, being the date which the Secretary of State indicates in a direction shall be the BETTA go-live date.

**The Official Seal of the Gas and Electricity Markets Authority here affixed is authenticated by the signature of**



.....  
**David Haldearn**  
**Duly authorised on behalf of the Authority**



Date

31 March 2005

# SCHEDULE

## Special Condition AA5: Revenue Restriction Conditions: Definitions

1. In this special condition, and in special conditions AA5A to AA5F 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.

“BETTA”

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

“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 forming part of the licensee’s transmission system 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

“New Electricity Trading Arrangements”  
or “(NETA)”

of special condition  
AA5A.

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

“non-domestic rates”

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

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

<u>“outage change”</u>	<u>has the meaning given in Special Condition AA5A, Part 2(iv)(TO incentives), paragraph 21A.</u>
“relevant period t”	means that period for the purposes of which any calculation falls to be made commencing on the effective time and ending on 31 March 2002 and thereafter shall have the same meaning as “relevant year t”.
“relevant year”	means a financial year commencing on or after 1 April 1990.
“relevant year t”	means that relevant year for the purposes of which any calculation falls to be made; “relevant year t-1” means the relevant year preceding relevant year t, and similar expressions shall be construed accordingly.
“remote transmission asset rentals”	means any rent or other periodic payment receivable by the licensee from an authorised electricity operator under an agreement relating to remote transmission assets.
“transmission network revenue”	means the aggregate of revenue in the relevant year derived by the licensee from the provision of transmission network services and from remote transmission asset rentals.
“transmission network revenue restriction”	means Part 1 of special condition AA5A, and Part

A of Schedule A and such parts of special condition AA5 and special conditions AA5B to AA5F 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 AA5F 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 AA5F 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 AA5F 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:

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

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:

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

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 [in respect of England and Wales](#) reflecting the difference between the reference level of excluded services revenue income in relevant year  $t$  as forecast when the price control [in respect of England and Wales](#) 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).

$RI_t$  means a revenue adjustment factor reflecting the licensee's performance against a transmission network reliability incentive in the relevant incentive period relating to year t, and derived from the formula in Special Condition AA5F.

$IES_t$  means the amount specified for the relevant year t in paragraph 4C.

$TSP_t$  means the amount specified to the licensee by SP Transmission Ltd (being a transmission owner at BETTA go-live date) or any successor company in relation to relevant year t pursuant to its transmission licence.

$TSH_t$  means the amount specified to the licensee by Scottish Hydro-Electric Transmission Ltd (being a transmission owner at BETTA go-live date) or any successor company in relation to relevant year t pursuant to its transmission licence.

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  $K_t$  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 2.75 per cent, the average specified rate plus 4 or, where  $K_t$  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 2.75 per cent, 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 [in England and Wales](#) 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 [in England and Wales](#) or of interconnector(s) capacity [using connected to](#) 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<sub>t</sub> is the sum of all capacities in gigawatts of those generation sets [in England](#) and [Wales and of](#) interconnector(s) [connected to the licensee's transmission system which are](#) additional to those capacities [in England and Wales](#) 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<sub>t</sub> equals zero. [In respect of the relevant year commencing 1 April 2005 the calculation of GWout<sub>t</sub> shall take into account capacity in relation to the Interconnection as if it were an interconnector and where "Interconnection" has the meaning given to it in standard condition B14.](#)

GWexp<sub>t</sub> is the sum of all capacities in gigawatts of those generation sets [in England](#) and [Wales and of](#) interconnector(s) [connected to the licensee's transmission system](#) additional to those capacities [in England and Wales](#) 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<sub>t</sub> is the sum of all such capacities in gigawatts of those generation sets and interconnector(s) additional to those capacities [in England and Wales](#) 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. [In respect of the relevant year commencing 1 April 2005 the calculation of GWout<sub>t</sub> shall take into account capacity in relation to the Interconnection as if it were an interconnector and where "Interconnection" has the meaning given to it in standard condition B14.](#)

GWref<sub>t</sub> represents the reference level of generation ~~sets~~ [sets in England](#) and [Wales and of](#) interconnector(s) capacity [connected to the licensee's transmission system](#) 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 A4 (Payments to the Authority) (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>L<sub>t</sub> £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 [in respect of England & Wales](#) reflecting the difference between the reference level of excluded services revenue income in year t as forecast when the price control [in respect of England & Wales](#) was initially set and actual excluded services income in year t [in relation to the provision of such services in England and Wales](#)) shall be derived from the following formula:

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

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: [in relation to excluded services provided in England and Wales](#).

$ESref_t$  represents the reference level of excluded service revenue [in relation to England and Wales](#) 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
$ESref_t$	116	121

Save that in the case of the relevant years commencing on 1 April 2001, 1 April 2002, and 1 April 2003  $CCC_t$  shall have a value equal to zero (0).

- 4B. For the purpose of paragraph 1, the term  $LPC_t$  (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.

$Lpc_{t,j,T}$  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  $t = T$   $Lpc_{t,j,T}$  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:

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

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

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

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 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)~~ (b) no assets may be included in the calculation of  $LPC_t$  that have an asset age greater than 40.

4C. For the purpose of paragraph 1, the term  $IES_t$  in relation to the year commencing 1 April 2005 (being the adjustment consequent on those assets comprising the interconnection being remunerated under paragraph 1 as and from BETTA go-live date) has the value £10,437,000. Interconnection has the meaning given to it in standard condition B14.

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

**No amendments are proposed to paragraphs 5 – 12 inclusive of this Special Condition.**

Nothing in this text alters the operation of Part 2(i) of this Special Condition (paragraphs 5-12 inclusive).

**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:

$BXint_t$  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:

$SOint_t$  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

$ASO_t$  Has the value calculated in accordance with paragraph B10 of Part B of Schedule A.

14. For the purpose of paragraph 13, the term  $SOint_t$  shall be derived from the following formula:

$$SOint_t = CSOC_t + IncPayInt_t + NSOC_t + SOBR_t + PSC_t + IAT_t + BI_t + TSPN_t + TSHN_t + ON_t + IONT_t$$

where:

$CSOC_t$  means the aggregate of the incentivised internal costs associated with the balancing services activity in respect of relevant year t.

$IncPayInt_t$  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.

$NSOC_t$  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.

$SOBR_t$  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.

$PSC_t$  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.

$IAT_t$  means, in respect of each relevant year t, the amount of any allowed income adjustment given by paragraph 18(b) below.

$BI_t$  represents the costs incurred by the licensee for preparing for the introduction of BETTA and for the relevant year t commencing 1 April 2005 has the value £12,374,000.

$TSPN_t$  means the amount specified to the licensee by SP Transmission Ltd (being a transmission owner at BETTA go-live date) or any successor company in relation to relevant year t pursuant to its transmission licence.

TSHN<sub>t</sub> means the amount specified to the licensee by Scottish Hydro-Electric Transmission Ltd (being a transmission owner at BETTA go-live date) or any successor company in relation to relevant year t pursuant to its transmission licence.

ON<sub>t</sub> has the value £3,228,000 for the relevant year t commencing on 1 April 2005 and represents an allowance for payments by the licensee in respect of outage changes.

IONT<sub>t</sub> means, in respect of each relevant year t, the amount of any allowed income adjustments given by paragraph 24(b).

15. Determination of incentive payments on internal costs

For the purposes of paragraph 14, the term  $IncPayInt_t$  shall be derived from the following formula:

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

where:

$ISF_t$  which is a balancing services activity sharing factor in respect of relevant year t, and has the value specified against the value of  $CSOC_t$  for the relevant year t in the column headed  $ISF_t$  in the appropriate table in paragraph B5 of Part B of Schedule A; and

$IMT_t$  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 <sub>Mt</sub>	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 <sub>Mt</sub>	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.

16. Income adjusting events under the balancing services activity revenue restriction on internal costs

(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 approved by it as such in accordance with paragraph 18 of this licence condition where the event or circumstance has, for relevant year t, increased or decreased the value of CSOC<sub>t</sub> 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 16(a) above:

**Table 1:**

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

17. 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 17(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 18(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 17(b)(i) to 17(b)(iv) above is insufficient to enable both the Authority and the relevant parties referred to in subparagraph 18(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 17(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 17(f)(i) is necessary for the purposes of enabling the relevant parties to fully assess the event to which the notice relates.

#### 18. 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 17(a) were caused or saved by an income adjusting event;
- (ii) whether the event or circumstance has increased or decreased the value of CSOC<sub>t</sub> 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<sub>t</sub>) shall be:

- (i) the value determined by the Authority under paragraph 18(a) above; or



(ii) if the Authority has not made a determination under paragraph 18(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 17(b)(iii); or

(iii) in all other cases zero, including situations where the Authority has not made a determination under paragraph 18(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 17(b) and/or 17(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 17(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.

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

- ~~16.20.~~ (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.

**Part 2 (iv): TO incentives**

21. Where there is a failure to agree between the licensee and a transmission owner in relation to:

- i) whether a change to the outage plan is an outage change; or
- ii) the net costs reasonably incurred by the transmission owner as a result of an outage change

the licensee shall provide the Authority such information as the Authority may reasonably request in relation to such disagreement.

21A An “outage change” is a change notified to a transmission owner by the licensee 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 a transmission owner (the “original change”); and
- (b) such changes notified to the transmission owner by the licensee which:
  - (i) the licensee and the transmission owner 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 transmission owner by the licensee which the licensee and

the transmission owner agree is not an outage change under this licence condition (a “non-chargeable outage change”). For the avoidance of doubt, any costs and/or expenses incurred by the licensee in relation to a non-chargeable outage change will not be considered by the Authority to be a reasonable cost or expense in relation to an outage cost adjusting event notified by the licensee under paragraph 23 (a).

21B For the purposes of paragraph 21 and paragraph 21A, “outage plan” and “week 49” shall have the same meanings as defined or used in the STC.

22. (a) An outage cost adjusting event in relevant year t may arise from either of the following:

- i) where the actual costs incurred by the licensee in making outage changes are, or where the licensee’s reasonable expectation of the actual costs in making outage changes will be either less than or in excess of  $ON_t$  in each case by more than £300,000 (the “outage threshold amount) or such other figure as the Authority has specified for the relevant year where  $ON_t$  has the value ascribed to it in paragraph 14 above; and
- ii) an event or circumstance other than listed above which is, in the opinion of the Authority, an outage cost adjusting event and is approved by it as such in accordance with paragraph 24 of this licence condition.

23. Notice of proposed outage cost 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 outage cost adjusting event, then the licensee shall give notice of this event to the Authority.

(b) A notice provided to the Authority under paragraph 23(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 outage cost 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 24(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 23(b)(i) to 23(b)(iv) above is insufficient to enable both the Authority and the relevant parties referred to in subparagraph 24(a) to assess whether an outage cost 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 outage cost adjusting event shall be given as soon as is reasonably practicable after the occurrence of the outage cost 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 outage cost adjusting event following its receipt.

(f) Any notice submitted to the Authority under either paragraph 23(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 23(f)(i) is necessary for the purposes of enabling the relevant parties to fully assess the event to which the notice relates.

#### 24. 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 23(a) were caused or saved by an outage cost adjusting event;

(ii) whether the event or circumstance has increased or decreased the licensee's relevant costs in making outage changes such that they will be either less than or in excess of  $ON_t$  in each case by more than the outage threshold amount; 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 outage cost adjusting event had not taken place, and if not, what allowed income adjustment would secure that effect.

- (b) In relation to the relevant year t, the allowed income adjustment (IONT<sub>t</sub>) shall be:
- (i) the value determined by the Authority under paragraph 24(a) above; or
  - (ii) if the Authority has not made a determination under paragraph 24(a) above within three months of the date on which notice of an outage cost 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 23(b)(iii); or
  - (iii) in all other cases zero, including situations where the Authority has not made a determination under paragraph 24(a) above within three months of the date on which notice of an outage cost 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 23(b) and/or 23(c) is insufficient to enable the Authority to assess whether an outage cost 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 23(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 outage cost adjusting event and allowed income adjustment with the consent of the licensee, following consultation with the licensee and relevant parties. Revocation of any outage cost 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 AA5B: Adjustments to Initial Transmission Network Revenue Formula**

**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 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  $t=T$ ;
  - (f) a written forecast of the value of  $LPR_t$ ; and
  - (g) a written forecast of the value of  $RI_t$ .
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  $t-2$ ; 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  $t=T$ ;
- (f) stating the actual outcome of the value of the  $LPR_t$  broken down into all its component parts; and
- (g) stating the actual outcome of the value of  $RI_t$  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  $CCC_t$  and the value of  $LPC_t$ , and the values of  $B_{j,T}$  and  $N_{j,T}$  for assets where relevant year  $t=T$ ,

and the value of  $LPR_t$ , and the value of  $RI_t$ , 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  $CCC_t$ , the value of  $LPC_t$ , the values of  $B_{j,T}$  and  $N_{j,T}$  for assets where relevant year  $t=T$ , the value of  $LPR_t$  and the value of  $RI_t$  are in accordance with the licensee's accounting records which have been maintained in accordance with standard condition B1 (Regulatory accounts); and

(b) certified by a director of the licensee on behalf of the licensee that to the best of his knowledge, information and belief 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  $D_t$  takes into account all user maintenance in that relevant year, whether agreed or determined (or, where neither agreed nor determined, properly estimated); and

~~(v)~~ (v) amounts included in  $LPC_t$  are bona fide considerations and do not include considerations for assets which have been fully depreciated.

### Transmission losses reporting

7. On or before 30 May in the relevant year t, the licensee shall provide to the Authority a transmission losses report.

8. A "transmission losses report" is a report which shall:

- a) save in relation to the relevant year t commencing on 1 April 2005 specify in relation to relevant year t-1 the level of units of electricity unaccounted for (“transmission losses”) on the GB transmission system and the level of transmission losses on each licensee’s transmission system measured as being the difference between the units of electricity metered on entry to the GB transmission system and each licensee’s transmission system (as the case may be) and the units of electricity metered on leaving the GB transmission system and each licensee’s transmission system (as the case may be); and
- b) in relation to relevant years t-1 and t include in reasonable but not excessive detail:
- i) 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
  - ii) 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.

**Special Condition AA5D: 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 AA5E: Duration of the Transmission Network Revenue Restriction and the Balancing Services Activity Revenue Restriction**

**No amendments are proposed to paragraphs 1-6 inclusive of this Special Condition.**

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

**Special Condition AA5F: Adjustment to Transmission Network Revenue  
Restriction due to Transmission Network Reliability Incentive Scheme**

**No amendments are proposed to paragraphs 1-13 inclusive of this Special  
Condition.**

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



## **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 C74 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 ~~C7B6~~ and borne by any person as connection charges in respect of connections made to a licensee's transmission system after the grant of ~~this~~the licence to the relevant transmission licensee 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

No amendments are proposed to paragraphs B1 – B14 inclusive of this Special Condition, with two exceptions as outlined below.

1. The CSOC<sub>t</sub> values contained within paragraph B5 (e) will be revised as part of this proposed licence modification. However, the ISF<sub>t</sub> values contained within paragraph B5 (e) are the subject of a separate live proposed licence modification. The following table highlights the proposed modifications to the CSOC<sub>t</sub> values in paragraph B5 (e) only. The ISF<sub>t</sub> values are intentionally omitted as these are the subject of the separate live proposed licence modification.

(CSOC <sub>t</sub> ) (£)	ISF <sub>t</sub>
< (60,656,843+ <u>EC<sub>t</sub></u> ) (RI <sub>t</sub> / Z <sub>t</sub> )	
=> (60,656,843+ <u>EC<sub>t</sub></u> ) (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 B~~12~~.12, and EC<sub>t</sub> has the meaning ascribed to it in paragraph B15.

2. The IMT<sub>t</sub> values contained within paragraph B6 in relation to the year commencing 1 April 2005 will be revised as part of this proposed licence modification.

Relevant Year Commencing 1 April	IMT <sub>t</sub> (£)
2005	(60,656,843 + <u>EC<sub>t</sub></u> ) (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 B~~12~~.12, and EC<sub>t</sub> has the meaning ascribed to it in paragraph B15.

An amendment adding a new paragraph B15 to this Special Condition as proposed below.

B15. For the purposes of paragraphs B5(e) and B6, in the relevant year commencing on 1 April 2005 the term  $EC_t$  has the value £6,315,000 being the incremental incentivised internal costs associated with the balancing services activity in relation to transmission areas of transmission licensees other than that of the licensee.

In relation to periods prior to 1 April 2005, the value of  $EC_t$  is zero