

**Extending National Grid Electricity
Transmission plc's Transmission Owner
Price Control for 2006/07**

Draft licence modifications

January 2006

Summary

In November 2005, Ofgem published final proposals for extending National Grid Electricity Transmission plc's (NGET) transmission owner price control for the period 1 April 2006 to 31 March 2007 (the 'proposed extended price control')¹. NGET have been asked to confirm by no later than 9 January 2006, whether they are minded to accept the proposals.

In order to implement the proposals, the Gas and Electricity Markets Authority (the 'Authority') will formally propose amendments to relevant parts of NGET's electricity transmission licence. This document sets out Ofgem²'s initial thoughts regarding the licence conditions that will be required to extend the price control for the period 1 April 2006 to 31 March 2007. This document also describes the process for modifying the licence.

Initial drafting of the modifications that would require to be made to NGET's special licence conditions is set out in chapter 3 of this document.

¹ Extending NGET's Transmission Owner Price Control for 2006/07: Final Proposals November 2005, 253/05

² Ofgem is the office of the Gas and Electricity Markets Authority.

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1. Introduction

- 1.1. The existing price control framework is set out in several special conditions of NGET's electricity transmission licence. These conditions set out the base revenue allowance and prescribe how it may be adjusted for a range of factors, including a company's performance under various incentive mechanisms.
- 1.2. In November 2005, Ofgem published final proposals for extending NGET's transmission owner price control for the period 1 April 2006 to 31 March 2007 (the 'proposed extended price control')³. NGET have been asked to confirm by no later than 9 January 2006, whether they intend to accept the proposals.
- 1.3. Subject to NGET's acceptance of the proposals, the Gas and Electricity Markets Authority (the 'Authority') will formally propose amendments to relevant parts of NGET's electricity transmission licence in order to implement the proposals.

Purpose and structure of this document

- 1.4. The purpose of this document is to set out initial drafting for the modified licence conditions which would be required to implement the extended price control. This document also sets out the process for modifying NGET's licence.
- 1.5. The document is structured as follows:
 - ◆ **the process for making licence modifications (Chapter 2)** – chapter 2 sets out the process for modifying electricity transmission licences. It also sets out the timetable which Ofgem is proposing to follow to enable the proposed extended price control to be in place for 1 April 2006; and
 - ◆ **draft licence conditions (Chapter 3)** - chapter 3 sets out initial drafting for the special licence conditions necessary to implement the proposed extended price control.

³ Extending NGET's Transmission Owner Price Control for 2006/07: Final Proposals November 2005, 253/05
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Responding to this document

1.6. Ofgem would like to hear the views of all of those with an interest in the extension of NGET's transmission owner price control. Ofgem would particularly welcome views on the initial licence drafting that is contained in this document

1.7. Responses should be received on or before 1 February 2006 and should be sent to:

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1.8. Unless marked confidential responses to this document will be published by placing them in Ofgem's library or on the website. It would be helpful if responses could be submitted both electronically and in writing. Any questions on this document should, in the first instance, be directed to Colin Green, who can be contacted on 020 79017143 or by email at colin.green@ofgem.gov.uk.

2. The process for making licence modifications

Introduction

- 2.1. The process which Ofgem generally adopts for making modifications and amendments to electricity licences under section 11 of the Electricity Act 1989 ('the Act') has two main components – an informal consultation with interested parties; and then a formal statutory consultation process. This section describes these processes and sets out the timetable which Ofgem is proposing to follow to enable the proposed extended price control to be in place from 1 April 2006.

Informal consultation on licence modifications

- 2.2. Informal consultations are a process whereby Ofgem invites relevant licensees and other interested parties to comment on early drafting of the proposed licence modifications. This approach enables Ofgem to refine the drafting of the proposed modifications in light of comments provided and, if possible, obtain broad agreement from affected licensees on the form and content of the licence modifications before the statutory consultation is undertaken.
- 2.3. This document represents Ofgem's informal consultation on the licence modifications necessary to extend the price control to 2006/07.

Statutory consultation on licence modifications

- 2.4. The principal objective of the Authority under the Act is, in essence, to protect the interests of consumers wherever appropriate by promoting effective competition. The Act also imposes a number of duties on the Authority⁴, including the duty to carry out its functions under Part 1 of that Act in the manner which it considers is best calculated to further the principal objective, having regard to:
- ◆ the need to secure that all reasonable demands for electricity are met;

⁴ See sections 3(A) – 3(C) of the Electricity Act 1989 as amended by the Utilities Act 2000
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- ◆ the need to secure that licence holders are able to finance their statutory and licensed activities; and
 - ◆ the interests of individuals who are disabled or chronically sick, of pensionable age, living on low incomes, and living in rural areas.
- 2.5. Subject to the obligation referred to above to perform its functions in the manner which it considers is best calculated to further the principal objective, the Authority is required, when carrying out its functions under Part 1 of the Act, to have regard to the effect on the environment of activities connected with generation, transmission, distribution or supply of electricity.
- 2.6. Section 7 of the Act provides the statutory basis for introducing licence conditions, including those relevant to the price control. It provides, amongst other things, that a licence may include such conditions as the Authority considers requisite or expedient having regard to the duties imposed by sections 3A to 3C of the Act.
- 2.7. The statutory process for introducing or modifying the licence conditions depends upon the type of condition that is being introduced or modified. The process for modifying the special licence conditions is set out under section 11 of the Act. Section 11 may also be used to modify the standard conditions of an individual licence. The process for collectively modifying the standard licence conditions of electricity licences is set out at section 11A of the Act.

Modification of the special conditions of NGET's licences

- 2.8. As a transmission licence holder, NGET has two roles:
- ◆ Transmission Asset Owner and Operator (TO); and
 - ◆ Great Britain System Operator (GBSO).

- 2.9. In its role as TO, NGET has responsibility for, amongst other things:
- (a) planning, developing and operating the high-voltage transmission lines and associated equipment in England and Wales in accordance with applicable standards; and
 - (b) developing and maintaining an efficient, co-ordinated and economical system of electricity transmission in accordance with applicable planning standards.
- 2.10. There are two further companies licensed to carry out TO activities in Scotland namely SP Transmission Ltd and Scottish Hydro-Electric Transmission Ltd.
- 2.11. In its role as GBSO, NGET is responsible for co-ordinating and directing the flow of electricity onto and over the GB transmission system. In Great Britain suppliers and generators contract with each other in a competitive wholesale electricity market. NGET, in its role as GBSO, has responsibility for balancing the electricity system between supply and demand in real time. This involves ensuring that the system remains within safe operating limits and that the pattern of generation and demand is consistent with any transmission-related constraints. NGET is also responsible, in its role as GBSO, for:
- (a) entering into contracts with those who wish to connect to and/or use the GB transmission system; and
 - (b) the residual purchasing and selling of electricity to keep the system in balance.
- 2.12. This document is concerned with the implementation of the proposed extended price control. The proposed extended price control relates only to NGET's TO responsibilities. NGET's transmission owner price control is set out in special conditions AA5 to AA5H of its transmission licence. These conditions may not be modified without the consent of the transmission licence holder except through legislation or following a reference to, and the decisions of, the Competition Commission.

2.13. Before making any modifications to NGET's licence the Authority must follow the statutory consultation process set out in Section 11 of the Act. This requires that it give notice:

- ◆ stating that it proposes to make modifications to the special conditions and setting out their effect;
- ◆ stating the reasons why it proposes to make the modification; and
- ◆ specifying a period (of not less than 28 days from the date of publication of the notice) within which representations or objections with respect to the proposed modifications may be made.

2.14. A copy of a notice given under section 11 must be served on the licence holder whose licence is affected by the contents of the notice. A copy must also be published in such manner as the Authority considers appropriate to bring it to the attention of persons (including other transmission companies and energywatch) likely to be affected by the proposed modification. A copy of the notice must also be sent to the Secretary of State. The Authority is proposing to give notice pursuant to section 11 of the Act that it intends to modify NGET's electricity transmission licence in early February 2006.

2.15. If, in response to the notice, objections or representations are duly made and not withdrawn, the Authority will consider these and determine the appropriate way forward. Where it is considered appropriate, the Authority may refer the matter to the Competition Commission. The Authority must consult further in respect of any material revisions made to the proposed modifications in light of any objections or material representations.

2.16. In addition, the Secretary of State has the ability, within a specified period of receiving a copy of the notice, to direct the Authority not to make the modifications.

Timetable and process for implementing the price controls

2.17. It is Ofgem's current intention that the statutory consultation on changes to the licence conditions to implement the price controls will be commenced in early February 2006. This should provide sufficient time for any representations and

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objections to be considered before the intended date upon which the proposed extended price control is due to take effect, namely 1 April 2006. In light of this, responses to this informal consultation are requested by 31 January 2006.

3. Draft licence conditions

Introduction

- 3.1. This chapter sets out initial drafting for the legal text needed to implement the proposed extended price control for 2006/07. The legal text set out in this document reflects present thinking and does not represent an agreed position between Ofgem and NGET.
- 3.2. Copies of the current special conditions for NGET can be found on the electronic public register section of Ofgem's website (www.ofgem.gov.uk).

Summary of the modifications

- 3.3. The Authority proposes to modify the special licence conditions of NGET's electricity transmission licence as follows⁵:
 - ◆ **Special condition AA5 (Revenue Restriction Conditions: definitions)** – to remove the definitions for acceleration repayment, annual legacy payment, asset age and legacy assets, on the basis that these definitions are not needed under the proposed revenue restriction for the period 1 April 2006 to 31 March 2007;
 - ◆ **Special condition AA5A (Revised Restrictions on Revenue)** – the Authority intends to remove Part 1 of the current licence condition and insert the proposed text for Part 1 set out below. This is necessary to reflect simplification of the price control formula under the proposed revenue restriction for the period 1 April 2006 to 31 March 2007;

⁵ In the proposed legal text deletions to the current conditions are shown as ~~red strikethrough type~~ and new additions are shown in **bold type**.

- ◆ **Special condition AA5C (Information to be provided to the Authority in Connection with the Transmission Network Revenue Restriction)** – the proposed modifications will remove those references to the revenue adjustments for:

- ◆ differences in the reference level of excluded services;
- ◆ legacy asset payments; and
- ◆ acceleration repayments,

on the basis that these items will not form part of the proposed revenue restriction for the period 1 April 2006 to 31 March 2007.

- ◆ **Special condition AA5E (Duration of the Transmission Network Revenue Restriction and Balancing Services Activity Revenue restriction)** – to modify the earliest date of any disapplication request in respect of the transmission network revenue restriction to 31 March 2007 which is needed to reflect that the price control will be extended by one year.

3.4. The Authority will propose further amendments to special conditions AA5 to AA5H inclusive and Schedules A and B, which will be necessary to implement proposals in respect of revised SO incentive arrangements.

Special condition AA5: Revenue Restriction

Conditions: Definitions

1. In this special condition, and in special conditions AA5A to AA5H inclusive and in Schedule A and Schedule B:

“acceleration repayment”	means any repayment from the licensee to a user representing repayment 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 the 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 of special condition AA5A.
"New Electricity Trading Arrangements" or "(NETA)"	means the wholesale electricity trading arrangements in England and Wales introduced by the Secretary of State under the Utilities Act 2000.
"non-domestic rates"	means non-domestic rates payable by the licensee in respect of hereditaments (other than excepted hereditaments being a hereditament consisting of or comprising premises used wholly or mainly: (a) as a shop or other place for the sale, display or demonstration of apparatus or accessories for use by consumers of electricity (any use for receipts of payments for the use of electricity being disregarded); (b) as office premises of the licensee where those premises are not situated on operational land of the licensee; or (c) for both of the foregoing purposes (for the avoidance of doubt, office premises and operational land shall have the meaning ascribed to those terms in SI 2000/525 Central Ratings List (England) Regulations) wholly or mainly used for the purposes of the transformation or transmission of electrical power, or for ancillary purposes.
"outage change"	has the meaning given in Special Condition AA5A, Part 2(iv)(TO incentives), paragraph 21A.
"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 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; "the 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.
“TIRG relevant year”	means, in relation to each transmission investment project <i>i</i> specified in Schedule B, the relevant year in which a revenue allowance falls to be made under special condition AA5G with respect to that transmission investment project <i>i</i> : <i>t</i> = <i>p</i> means the relevant year commencing 1 April 2005; <i>t</i> = <i>p</i> to <i>t</i> = -1 means the preconstruction period (where $p \leq -1$); <i>t</i> = 0 means the relevant year in which construction of that transmission investment project <i>i</i> commences; <i>t</i> = 0 to <i>t</i> = <i>n</i> means the construction period; <i>t</i> = <i>n</i> means the relevant year in which that transmission investment project <i>i</i> is commissioned; <i>t</i> = <i>n</i> + 1 means the relevant year in year 1 post commissioning period for that transmission investment project <i>i</i> and similar expressions shall be construed accordingly.
“transmission network revenue”	means the aggregate of revenue derived in the relevant year by the licensee from the provisions 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 and Schedule B 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 AA5H inclusive and Schedules A and B, 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 the formulae appearing in special conditions AA5A to AA5H inclusive and Schedules A and B, and defined for the purposes of those formulae shall have the same meaning if used in any other formulae in those other special conditions.**
4. In this special condition and in special conditions AA5A to AA5H and Schedules A and B, any cost, charge, payment or amount may either be positive or negative.

Special condition AA5A: Revised Restrictions on Revenue

Part 1 – The Transmission Network Revenue Restriction

1. 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:

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

$$M_t = PR_t - D_t - K_t + U_t + RI_t + IES_t + TSP_t + TSH_t + TIRG_t$$

where:

M_t means the maximum revenue in relevant year t.

RPI_t means the percentage change (whether of a positive or 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 Pt 1 shall have a value equal to £785,400,000;~~

~~(ii) — in relation to the relevant year commencing on 1 April 2002 Pt 2 shall have that value; and~~

~~(iii) — in relation to the relevant year commencing on 1 April 2003 Pt 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).~~

PR_t means, in relation to the relevant year commencing on 1 April 2006, the base transmission revenue and shall have the value £[999,090,000].

D_t means a correction factor to be applied to transmission network revenue and is equal to the value of user maintenance in the relevant year t.

K_t means the revenue restriction 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 the movement in non-domestic rates and the licence fee, and is derived from the formula given in paragraph 3.

~~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 4.

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.

TIRG_t means, for each TIRG relevant year t, the aggregate of the annual revenue allowances for each transmission investment project specified in schedule B and shall be calculated in accordance with special condition AA5G.

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

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

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:~~

$$\text{---} G_t = A_t [GW_t]$$

~~--- where:~~

~~--- A_t is given by the following formula:~~

$$\text{---} A_t = ce_t [R_t + Dep_t]$$

~~--- where:~~

~~ce_t which represents the capital expenditure per gigawatt of capacity of new generation in England and Wales or of interconnector(s) capacity connected to the licensee's transmission system, is given by the following formula:~~

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

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

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

~~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:~~

$$\text{GW}_t = \text{GWfor}_t - \text{GWref}_t$$

where:

$$\text{GWfor}_t = \text{GWout}_t + \text{GWexp}_t$$

~~GWout_t 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_t equals zero.~~

~~In respect of the relevant year commencing 1 April 2005 the calculation of GWout_t 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_t 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_t 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 $GW_{out,t}$ 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.~~

~~$GW_{ref,t}$ represents the reference level of generation 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:~~

Relevant year t commencing on 1 April	2001	2002	2003	2004	2005
$GW_{ref,t}$	0.6	1.7	3.4	4.5	5.0

3. For the purposes 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:

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

where:

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:

Relevant year t commencing on 1 April	2005	2006
Rate_t (£million)	102.7	94.9

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:

Relevant year t commencing on 1 April	2005	2006
L_t (£million)	8.3	13.2

~~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:~~

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

~~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.~~

~~ES_{ref_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 $Lpc_{t,j,T}$ 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:

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

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

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

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

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

Save that:

(a) in the case of the relevant years commencing on 1 April 2001, 1 April 2002, and 1 April 2003 LPC_t shall have a value equal to zero (0); and

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

4. For the purposes of paragraph 1, the term IES_t in relation to the year commencing 1 April 2006 (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 £[10,730,000]. Interconnection has the meaning given to it in standard condition B14.

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 ; **and**
 - ~~(d) a written forecast of the value of CCC_t ;~~
 - ~~(e) a written forecast of the value of LPC_t and $B_{i,T}$ and $N_{i,T}$ for assets where relevant year $t = T$;~~
 - ~~(f) a written forecast of the value of LPR_t ; and~~
 - (d) 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.

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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~~

- (d) **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 $LPC_{t,T}$ and the values of $B_{j,T}$ and $N_{j,T}$ for assets where relevant year $t = T$, and the value of $LPR_{t,T}$~~ 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, 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; and
- (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).

~~(v) — amounts included in LPCt 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

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

1. The balancing services activity revenue restriction and the transmission network revenue restriction shall apply so long as this licence continues in force but shall cease to have effect in such circumstances and at such times as are described in paragraphs 2 to 6 below.
2. The transmission network revenue restriction and the balancing services activity revenue restriction (or any of them) shall cease to have effect (in whole or in part, as the case may be) if the licensee delivers to the Authority a disapplication request made in accordance with paragraph 3 or notice is given to the Authority by the licensee in accordance with either paragraph 5 or paragraph 6.
3. A disapplication request shall:
 - (i) be in writing addressed to the Authority,
 - (ii) specify whether it relates to the balancing services activity revenue restriction and/or to the transmission network revenue restriction (or to both or any of them or to any part or parts thereof) and
 - (iii) state the date (being not earlier than the date referred to in paragraph 4) from which the licensee wishes the Authority to agree that those conditions shall cease to have effect.
4. No disapplication following delivery of a disapplication request shall have effect until a date being the earlier of not less than 18 months after delivery of the disapplication request or the following date:
 - (i) in the case of a disapplication request which relates to the transmission network revenue restriction, **31 March 2007**;
 - (ii) in the case of a disapplication request which relates to the balancing services activity revenue restriction set out in Part 2(i) of special condition AA5A, 31 March 2006; and

- (iii) in the case of a disapplication request which relates to the balancing services activity revenue restriction set out in Part 2(ii) special condition AA5A, 31 March 2006.

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

- (A) for the transmission network revenue restriction, the maximum allowable revenue for the relevant year commencing 1 April 2007 shall be defined in accordance with the formula in Part 1 of special condition AA5A where ~~Xg equals zero and GWref~~, Rate_t and Lt shall have the same values as those given in paragraphs ~~3 and 4~~ of Part 1 of special condition AA5A for the relevant year commencing on **1 April 2006**;
 - (B) for the balancing services activity revenue restriction set out in Part 2(ii) of special condition AA5A, the values set out in Schedule A, Part B for the relevant year commencing on 1 April 2005 shall apply; and
 - (C) for the balancing services activity revenue restriction set out in Part 2(i) of special condition AA5A, the values set out in Schedule A, Part B shall apply.
5. If the Authority has not made a reference to the Competition Commission under section 12 of the Act relating to the modification of the Conditions or the part of parts thereof specified in the disapplication request before the beginning of the period of 12 months which will end with the disapplication date, the licensee may deliver written notice to the Authority terminating the application of such Conditions (or any part or parts thereof) as are specified in the disapplication request with effect from the disapplication date or a later date.
6. If the Competition Commission makes a report on a reference made by the Authority relating to the modification of the Conditions (or any part or parts thereof) specified in the disapplication request and such report does not include

a conclusion that the cessation of those Conditions, in whole or in part, operates or may be expected to operate against the public interest, the licensee may within 30 days after the publication of the report by the Authority in accordance with section 13 of the Act deliver to him written notice terminating the application of those conditions or any part or parts thereof with effect from the disapplication date or later.