

To: The Company Secretary
Scottish Hydro-Electric Transmission Limited (Company number: SC213461)
Inveralmond House
200 Dunkeld Road
Perth
Scotland
PH1 3AQ

**MODIFICATION OF SCOTTISH HYDRO-ELECTRIC TRANSMISSION LIMITED'S
ELECTRICITY TRANSMISSION LICENCE PURSUANT TO SECTION 11(1) OF THE
ELECTRICITY ACT 1989**

Whereas:

1. Scottish Hydro-Electric Transmission Limited ('the Licensee') is the holder of an electricity transmission licence ('the Licence') treated as granted under section 6(1)(b) of the Electricity Act 1989 ('the Act').
2. Pursuant to section 11(2) and (3) of the Act, the Gas and Electricity Markets Authority ('the Authority') gave notice on 16 December 2005 ('the Notice') that it proposed to modify the special conditions of the Licence by:
 - (a) amending special licence condition J (Restriction of Transmission Charges) by inserting a "RI" term in the transmission network revenue restriction formula so as to allow the Licensee's maximum revenue allowance to be adjusted based on its performance against the Transmission Network Reliability Incentive ("RI") Scheme;
 - (b) amending special licence condition J (Restriction of Transmission Charges) by inserting a definition of "RI" as a consequence of the proposed modification outlined in paragraph (a) above;
 - (c) inserting a new special licence condition Q (Adjustment to Transmission Network Revenue Restriction due to Transmission Network Reliability Incentive Scheme) which sets out how the RI component of the

transmission network revenue restriction formula will be calculated in a relevant year;

(d) amending special licence condition I (Definitions) such that the definitions set out in this special licence condition apply to the new special licence condition Q;

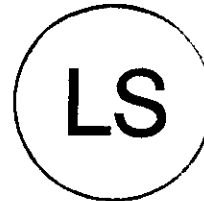
(e) amending the definition of "charge restriction conditions" in special condition I (Definitions) such that the term includes the RI revenue adjustment;

(f) amending special licence condition K (Restriction of transmission charges: Adjustments), special licence condition L (Information to be provided to the Authority in connection with charge restriction conditions) and special condition L1 (Price control review information) such that these special conditions refer to the RI revenue adjustment.

3. In accordance with section 49A of the Act, the reasons for making the licence modification are those stated in the Notice.
4. Prior to the close of the consultation period in respect of the Notice, the Authority received two responses and no objections in relation to the proposed modification of the special conditions of the Licence. No responses were withdrawn. All non-confidential responses are available from the Ofgem Research and Information Centre, 9 Millbank, London SW1P 3GE (0207 901 7003) or from the Ofgem website at www.ofgem.gov.uk.
5. The Authority gave notice to the Secretary of State of its intention to make the licence modification and did not receive a direction from the Secretary of State not to make the proposed licence modification.
6. On 20 January 2006 the Licensee gave its written consent to the proposed modification of the special conditions of the Licence in the manner set out in the schedule to this Direction.

Therefore in accordance with the powers contained in section 11(1) of the Act, the Authority hereby directs that the special conditions of the Licence are modified in the manner specified in the schedule to this Direction with effect on and from 1 January 2006.

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

A handwritten signature in black ink, appearing to read 'Robert Hull', with a flourish underneath.

Robert Hull
Director – Transmission, Networks
Authorised on behalf of the Authority

30 January 2006

SCHEDULE

DIRECTION PURSUANT TO SECTION 11(1) OF THE ELECTRICITY ACT 1989

MODIFICATION OF THE EXISTING PROVISIONS OF THE TRANSMISSION LICENCE

1 Special Condition I: Definitions shall be amended by substituting "Special Conditions J to Q" for "Special Conditions J to P" in each place where it occurs.

2 The definition of "charge restriction conditions" in Special Condition I: Definitions shall be amended by substituting "Special Conditions I to Q" for "Special Conditions I to P".

3 The formula in paragraph 1 of Special Condition J: Restriction of Transmission Charges shall be amended by inserting "+RI," at the end of the formula in the following manner:

$$\text{"TR}_t = R_t - KKT_t + Lft + Elt + Blt + Ect + Cct + IAt_t + IAAct + TIRGt + RI_t \text{"}$$

4 Paragraph 1 of Special Condition J: Restriction of Transmission Charges shall be amended by inserting the following at the end of that paragraph immediately after the definition of "TIRGt":

"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 shall be calculated in accordance with Special Condition Q.

5 Special Condition K: Restriction of Transmission Charges: Adjustments shall be amended by substituting "Special Conditions I to Q" for "Special Conditions I to P" in each place where it occurs.

6 Special Condition L: Information to be provided to the Authority in connection with Charge Restriction Conditions shall be amended by substituting "Special Conditions I to Q" for "Special Conditions I to P" in each place where it occurs.

- 7 Special Condition L1: Price Control Review Information shall be amended by substituting "Special Conditions I to Q" for "Special Conditions I to P" in each place where it occurs.
- 8 After Special Condition P: Information to be provided to the Authority in connection with Transmission Investment for Renewable Generation there shall be inserted the following new condition:

Special Condition Q: Adjustment to Restriction of Transmission Charges due to Transmission Network Reliability Incentive

1. For the purpose of paragraph 1 of Special Condition J, the term RI_t shall be derived from the following formula:

$$RI_t = R_t \cdot RAF_y$$

Save that:

- (a) in the relevant year commencing on 1 April 2006 RI_t shall relate to the licensee's performance against the transmission network reliability incentive during incentive period y commencing on 1 January 2006 and ending on 31 March 2007; and
- (b) in all other relevant years RI_t shall have a value equal to zero.

where:

R_t shall be calculated in accordance with the formula specified in paragraph 1 of Special Condition J.

RAF_y is the revenue adjustment factor based on the licensee's performance against the transmission network reliability incentive during incentive period y , and is derived from the following formula:

If $RIP_y < RILT_y$:

$$RAF_y = RIUPA_y \left[\frac{RILT_y - RIP_y}{RILT_y} \right]$$

If $RIP_y > RIUT_y$:

$$RAF_y = \max \left(RIDPA_y, RIDPA_y \left[\frac{RIP_y - RIUT_y}{RICOL_y - RIUT_y} \right] \right)$$

Otherwise:

$$RAF_y = 0$$

where:

$RILT_y$ is the lower incentivised loss of supply event target in respect of incentive period y , which is the number of events specified in the following table:

Incentive Period y	1 January 2006 – 31 March 2007
RILT_y	14

$RIUT_y$ is the upper incentivised loss of supply event target in respect of incentive period y , which is the number of events specified in the following table:

Incentive Period y	1 January 2006 – 31 March 2007
RIUT_y	16

$RIUPA_y$ is the maximum upside percentage adjustment in respect of incentive period y , which has the value as specified in the following table:

Incentive Period y	1 January 2006 – 31 March 2007
RIUPA_y	0.5%

RIDPA_y is the maximum downside percentage adjustment in respect of incentive period y , which has the value as specified in the following table:

Incentive Period y	1 January 2006 – 31 March 2007
RIDPA_y	-0.75%

RICOL_y is the incentivised loss of supply collar in respect of incentive period y which is the number of events specified in the following table:

Incentive Period y	1 January 2006 – 31 March 2007
RICOL_y	37

RIP_y is the number of incentivised loss of supply events in incentive period y .

max (A,B) means the value equal to the greater of A and B.

2. For the purposes of this Special Condition, "incentivised loss of supply event" shall mean any event on the licensee's transmission system that causes electricity not to be supplied to a customer subject to the following exclusions:

- (a) any such event that causes electricity to not be supplied to 3 or less directly connected parties;

- (b) any unsupplied energy resulting from a shortage of available generation;
- (c) any unsupplied energy resulting from a user's request for disconnection in accordance with the Grid Code;
- (d) any unsupplied energy resulting from emergency de-energisation of part of the licensee's transmission system, either as a consequence of a user's request for emergency de-energisation of its equipment or the user carrying out an emergency de-energisation of its equipment;
- (e) any unsupplied energy resulting from a planned outage as defined in the Grid Code;
- (f) any unsupplied energy resulting from a de-energisation or disconnection of a user's equipment necessary to ensure compliance with an instruction by the system operator to the licensee pursuant to the STC; and
- (g) any unsupplied energy resulting from an emergency de-energisation or disconnection of a user's equipment necessary to ensure compliance with the Electricity Safety, Quality and Continuity Regulations 2002, as amended from time to time, or to otherwise ensure public safety.

3. For the purpose of paragraph 2, a "directly connected party" is any party with a direct connection to the licensee's transmission system with the exception of any connection to a distribution system.

4. Where:

- (a) the licensee considers that any event on the licensee's transmission system that causes electricity not to be supplied to a customer has been wholly or partially caused by an exceptional event;

- (b) the licensee has notified the Authority of such event within 14 days of its occurrence;
- (c) the licensee has provided details of the exceptional event and such further information, if any, as the Authority may require in relation to such an exceptional event; and
- (d) the Authority is satisfied that the event notified to it under subparagraph (b) is an exceptional event,

the Authority may, by notice to the licensee, direct that the number of incentivised loss of supply events in incentive period y shall be adjusted as specified in that direction.

5. For the purpose of paragraph 4, the adjustment directed by the Authority shall be based on the extent to which the Authority is satisfied that the licensee had taken reasonable steps to prevent the event having the effect of interrupting supply and to mitigate its effect (both in anticipation and subsequently).
6. A direction under paragraph 4 shall not have effect unless, before it is made, the Authority has given notice to the licensee:
 - (a) setting out the terms of the proposed direction;
 - (b) stating the reasons why it proposes to issue the direction; and
 - (c) specifying the period (not being less than 14 days from the date of the notice) within which the licensee may make representations or objections

and the Authority has considered such representations or objections and given reasons for its decision.

7. For the purpose of paragraph 4, an "exceptional event" means an event or circumstance that is beyond the reasonable control of the licensee and which results in or causes electricity not to be supplied to a customer and includes an act of the public enemy, war declared or undeclared, threat of war, terrorist act, revolution, riot, insurrection, civil commotion, public demonstration, sabotage, act of vandalism, fire (not related to weather), any severe weather event resulting in more than 4 faults being recorded by the licensee on the licensee's transmission system in any 24 hour period, governmental restraint, Act of Parliament, other legislation, bye law or directive (not being any order, regulation or direction under section 32, 33, 34 and 35 of the Electricity Act 1989) provided that lack of funds shall not be interpreted as a cause beyond the reasonable control of the licensee.

8. Within 28 days of the end of the incentive period *y*, or such later date as the Authority may direct, the licensee shall provide a report to the Authority in a form approved by the Authority. The report shall contain the following information:
 - (a) the number of incentivised loss of supply events occurring during the incentive period *y*;

 - (b) the details of any excluded events referred to in paragraph 2 with reference to such relevant supporting information that in the Authority's opinion is necessary for it to determine whether an excluded event has occurred; and

 - (c) the details of any adjustments made to the number of incentivised loss of supply events in incentive period *y* for exceptional events in accordance with paragraph 4.

9. Unless the Authority otherwise directs within 28 days of receipt of the report, the number of incentivised loss of supply events in incentive period *y* specified in the report shall be deemed to be final.