

To: The Company Secretary  
National Grid Electricity Transmission plc (Company number: 02366977)  
1-3 Strand  
London  
WC2N 5EH

**DIRECTION TO MODIFY NATIONAL GRID ELECTRICITY TRANSMISSION  
PLC'S ELECTRICITY TRANSMISSION LICENCE PURSUANT TO SECTION  
11(1) OF THE ELECTRICITY ACT 1989**

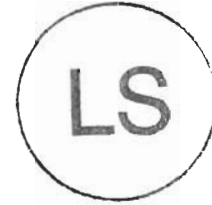
Whereas:

1. National Grid Electricity Transmission plc ('the Licensee') is the holder of an electricity transmission licence ('the Licence') granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 ('the Act').
2. On 28 February 2006, the Gas and Electricity Markets Authority ('the Authority') gave notice ('the Notice') in accordance with section 11(2) and section 11(3) of the Act that it proposed to modify the special conditions of the Licence such that:
  - (a) the part 1 of special condition AA5A (Revised Restriction on Revenue) which is in place at the date of this Direction is removed;
  - (b) a new part 1 to special condition AA5A (Revised Restriction on Revenue) is inserted to give effect to the licensee's transmission network revenue restriction for the period 1 April 2006 to 31 March 2007 (the "new price control");
  - (c) special condition AA5 (Revenue Restriction Conditions: Definitions) is modified to remove the following definitions: "acceleration repayment"; "annual legacy asset payment"; "asset age"; and "legacy asset", which are made redundant by the removal of the part 1 of special condition AA5A (Revised Restriction on Revenue) which is referred to at sub-paragraph (a) above and its replacement by the new part 1 of special condition AA5A (Revised Restriction on Revenue) which is referred at sub-paragraph (b) above;

- (d) special condition AA5C (Information to be provided to the Authority in Connection with the Transmission Network Revenue Restriction) is modified to remove the reporting requirements that are made redundant by the removal of the part 1 of special condition AA5A (Revised Restriction on Revenue) which is referred to at sub-paragraph (a) above and its replacement by the new part 1 of special condition AA5A (Revised Restriction on Revenue) referred at sub-paragraph (b) above; and
  - (e) special condition AA5E (Duration of the Transmission Network Revenue Restriction and Balancing Services Activity Revenue Restriction) is amended to give effect to the new price control.
3. In accordance with section 49A of the Act, the reasons for modifying the Licence in the manner prescribed in this Direction are those referenced in the Notice.
  4. Prior to the close of the consultation period in respect of the Notice, the Authority received one response and no objections in relation to the proposed modification of the special conditions of the Licence as detailed in the Notice. 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](http://www.ofgem.gov.uk).
  5. The Authority sent a copy of the Notice to the Secretary of State and did not receive a direction from the Secretary of State not to modify the Licence in the manner detailed in the Notice.
  6. On 31 March 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 April 2006.

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



**Robert Hull**

Director – Transmission, Networks

Authorised on behalf of the Authority

31 March 2006

## SCHEDULE

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

#### MODIFICATION OF EXISTING PROVISIONS OF THE TRANSMISSION LICENCE

- 1) Paragraph 1 of special condition AA5 (Revenue Restriction Conditions: Definitions) shall be amended by deleting the following definitions:
  - (a) "acceleration repayment";
  - (b) "annual legacy asset payment";
  - (c) "asset age"; and
  - (d) "legacy assets".
- 2) Paragraph 3 of special condition AA5 (Revenue Restriction Conditions: Definitions) shall be deleted and replaced with the following:

“3. Any term used in the formulae appearing in special conditions AA5A to AA5H inclusive and Schedule A and Schedule 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.”
- 3) Part 1 of special condition AA5A (Revised Restriction on Revenue) shall be deleted and replaced with the following:

#### “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:

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

where:

- $M_t$  means the maximum revenue in relevant year t.
- $PR_t$  means, in relation to the relevant year commencing on 1 April 2006, the base transmission revenue and shall have the value £1,000,380,000.

- $D_t$  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.
- $U_t$  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.
- $RI_t$  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 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 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
Estimate of non domestic rates payable by the licensee (£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
Estimate of the licence fee payable by the licensee (£million)	8.3	13.2

4. For the purpose 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 £11,200,000. Interconnection has the meaning given to it in standard condition B14.”

4) Paragraph 1 of special condition AA5C (Information to be Provided to the Authority in Connection with the Transmission Network Revenue Restriction) shall be deleted and replaced with the following text:

“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  $RI_t$ .”

5) Paragraph 5 of special condition AA5C (Information to be Provided to the Authority in Connection with the Transmission Network Revenue Restriction) shall be deleted and replaced with the following text:

“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; and
- (d) stating the actual outcome of the value of  $RI_t$  broken down into all its component parts.”

6) Paragraph 6 of special condition AA5C (Information to be Provided to the Authority in Connection with the Transmission Network Revenue Restriction) shall be deleted and replaced with the following text:

“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 RI<sub>t</sub>, and (ii) the amounts of the allowed security costs, the aggregate amounts charged on account of the allowed security costs, the transmission network revenue, the revenue from excluded services, the value of user maintenance shown in such statement, and the value of RI<sub>t</sub> 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<sub>t</sub> takes into account all user maintenance in that relevant year, whether agreed or determined (or, where neither agreed nor determined, properly estimated)."

- 7) Paragraph 4 of special condition AA5E (Duration of the Transmission Network Revenue Restriction and Balancing Services Activity Revenue Restriction) shall be deleted and replaced with the following text:

- "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 save that:

- (aa)  $PR_t$  shall be replaced with:

$$\left[ 1 + \frac{RPI_t}{100} \right] PR_t$$

where:

$PR_t$  shall have the same value as that given in paragraph 1 of Part 1 of special condition AA5A for the relevant year commencing on 1 April 2006; and

$RPI_t$  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;

- (bb) the expected non-domestic rates payable by the licensee and expected licence fee payable by the licensee shall have the same values as those given in paragraph 3 of Part 1 of special condition AA5A for the relevant year commencing on 1 April 2006; and

- (cc)  $IES_t$  shall be replaced with:

$$\left[ 1 + \frac{RPI_t}{100} \right] IES_t$$

where:

$IES_t$  shall have the same value as that given in paragraph 4 of Part 1 of special condition AA5A for the relevant year commencing on 1 April 2006; and

RPI<sub>t</sub> shall have the same meaning as set in sub-paragraph (aa) above;

- (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.”