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value for all customers*

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

Your Ref:
Our Ref:
Direct Dial: 020 7901 7050
Email: Robert.hull@ofgem.gov.uk

7 November 2006

Dear Sirs,

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

On 5 September 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 paragraph 1 of special condition AA5F (Adjustment to Transmission Network Revenue Restriction due to Transmission Network Reliability Incentive Scheme) of National Grid Electricity Transmission plc's ("NGET's") transmission licence ('the Licence') to make a consequential amendment to the Transmission Network Reliability Incentive Scheme following the introduction of revised new transmission network revenue restriction for the period 1 April 2006 to 31 March 2007.

The Authority received one response and no objections to the Notice. It did not receive a direction from the Secretary of State not to modify the Licence in the manner detailed in the Notice. Having received NGET's consent to the making of the modification which is detailed in the Notice, the Authority has made the enclosed Direction in accordance with the power conferred upon it by section 11(1) of the Act.

Yours faithfully

Robert Hull
Director - Transmission



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 a 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 5 September 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 paragraph 1 of special condition AA5F (Adjustment to Transmission Network Revenue Restriction due to Transmission Network Reliability Incentive Scheme) of the Licence.
3. The purpose of the modification is to make a consequential amendment to the Transmission Network Reliability Incentive Scheme to define the term P_{t-1} which is used in determining the revenue exposed to the incentive. This term was previously undefined following the changes that took effect on 1 April 2006.
4. In accordance with section 49A of the Act, the reasons for modifying the Licence in the manner prescribed in this Direction are those set out in the Notice.
5. 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 special condition AA5F (Adjustment to Transmission Network Revenue Restriction due to Transmission Network Reliability Incentive Scheme) 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 (020 7901 7003) or from the Ofgem website at www.ofgem.gov.uk.
6. 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.
7. On 26 September 2006, the Licensee gave its written consent to the proposed modification of special condition AA5F (Adjustment to Transmission Network Revenue Restriction due to Transmission Network Reliability Incentive Scheme) of the Licence in the manner set out in the schedule to the Direction.

Therefore in accordance with the powers contained in section 11(1) of the Act, the Authority hereby directs that special condition AA5F (Adjustment to Transmission Network Revenue Restriction due to Transmission Network Reliability Incentive Scheme) of the Licence are modified in the manner specified in the schedule to this Direction with effect on and from 7 November 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 'R Hull', written in a cursive style.

Robert Hull

Director – Transmission, Networks
Authorised on behalf of the Authority

7 November 2006

SCHEDULE

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

MODIFICATION OF THE EXISTING PROVISIONS OF THE TRANSMISSION LICENCE

In paragraph 1 of special condition AA5F (Adjustment to Transmission Network Revenue Restriction due to Transmission Network Reliability Incentive Scheme) the following definition shall be inserted before the definition of the term "RAF_y":

"P_{t-1} means the amount calculated using the following formula:

$$P_{t-1} = P_{t-2} \left[1 + \frac{RPI_{t-1} - X_g}{100} \right]$$

where:

RPI_{t-1} 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-2 and that are published or determined with respect to the same months in relevant year t-3.

X_g has the value one and a half (1.5).

P_{t-2} shall in the relevant year commencing 1 April 2006 take the value £806.1 million."