

## **Transmission price control review: Draft licence conditions (electricity) - second informal consultation – Appendix 6**

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Target audience: This document will be of interest to network owners and operators, generators, shippers, suppliers, customers and other interested parties.

### **Overview:**

In December 2006 we published our final proposals following our review of the price controls of the four transmission companies in electricity and gas. Our proposals have now been accepted in principle by the companies and will take effect on 1 April 2007. To give effect to our proposals we need to amend the licences of the four companies. Throughout the process we have engaged the licensees to develop licence drafting that accurately reflects our final proposals, and serves to enhance the clarity and robustness of the existing licence provisions. We expect to continue to utilise bilateral discussions from now until the publication of our formal notices to further develop the licence drafting. Please note that the drafting will be subject to further review following our bilateral meetings with the licensees, and is therefore subject to change. Such changes are anticipated to include further housekeeping amendments. Shortly following publication of this document, we will be publishing a similar document regarding proposed changes to National Grid Gas' NTS licence.

This document is our second informal consultation on the detailed changes we propose to make to the licences of the three electricity transmission companies. Following this consultation we intend to publish our formal section 11 and section 11A notices to propose the necessary licence changes in February.

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## Context

Over the past two years we have been in the process of reviewing the price controls of the four transmission companies we regulate. The price controls determine how much revenue each of the companies is permitted to recover, generally over a five year period. This is an important process to ensure we continue to regulate network monopolies effectively by implementing provisions so that the companies can finance their activities and by providing the companies with the right set of financial incentives to act in the interests of consumers.

This process has now concluded with the publication of our final proposals in December 2006. In order to give effect to our proposals, however, we must modify the transmission licences held by each of the companies. The licences are the means by which the companies are bound to the terms of our new price controls. It is important therefore that the licences reflect our policy as set out in the final proposals document in an accurate and unambiguous manner. The process of consultation on the draft licence conditions is designed to ensure that these aims are met.

## Associated Documents

- TPCR 2007-2012 Draft licence conditions – SPTL Transmission Licence Special Conditions - second informal consultation - Appendix 7, January 2007 (Ref No. 10b/07)
- TPCR 2007-2012 Draft licence conditions - SHETL Transmission Licence Special Conditions - second informal consultation - Appendix 8, January 2007 (Ref No. 10c/07)
- TPCR 2007-2012 Draft licence conditions – Transmission Licence Standard Conditions - second informal consultation - Appendix 9, January 2007 (Ref No. 10d/07)
- National Grid Electricity Transmission and National Grid Gas System Operator Incentives from 1 April 2007, Initial Proposals, December 2006 (Ref No. 208/06)
- TPCR 2007-2012 Final Proposals, Decision Document, December 2006 (Ref No. 206/06)
- TPCR 2007-2012 Final Proposals - Appendices, December 2006 (Ref No. 206/06b)
- TPCR 2007-2012 Draft Licence Modifications, November 2006 (Ref No. 197/06)
- TPCR 2007-2012 Draft Licence Modifications - Appendices, November 2006 (Ref No. 197/06a)
- TPCR 2007-2012 Updated Proposals, September 2006 (Ref No. 170/06)
- TPCR 2007-2012 Updated Proposals - Appendices, September 2006 (Ref No. 170/06a)
- TPCR 2007-2012 Initial Proposals, June 2006 (Ref No. 104/06)
- TPCR 2007-2012 Initial Proposals, Main Appendices, June 2006 (Ref No. 104b/06)
- Access Reform in Electricity Transmission: Working group report and next steps, May 2006 (Ref No. 83/06a)

- A framework for considering reforms to how generators gain access to the GB electricity transmission system: A report by the Access Reform Options Development Group April 2006, May 2006 (Ref No. 83/06b)
- TPCR 2007-2012: Third Consultation, March 2006 (Ref No. 51/06)
- TPCR 2007-2012: Third Consultation, Supplementary Appendices, March 2006 (Ref No. 51/06b)
- TPCR Capital Expenditure Projections 2007-2012 (open letter), 1 February 2006 (Ref No. 21/06)
- TPCR Second Consultation, December 2005 (Ref No. 277/05)
- TPCR Initial Consultation, July 2005 (Ref No. 172/05)

Proposed TPCR licence modifications

19 January 2007

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Appendix 6 – NGET Transmission Licence Special Conditions

**TRANSMISSION LICENCE OF NATIONAL GRID COMPANY PLC**

**ELECTRICITY ACT 1989**

**SECTION 6(1)(b)**

**ELECTRICITY TRANSMISSION LICENCE**

**FOR**

**THE NATIONAL GRID COMPANY PLC**

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**PART I. TERMS OF THE LICENCE**

1. This licence, treated as granted under section 6(1)(b) of the Electricity Act 1989 ("the Act"), authorises The National Grid Company plc (a company registered in England and Wales under company registration number 2366977) ("the licensee") whose registered office is situated at National Grid House, Kirby Corner Road, Coventry CV4 8JY, to participate in the transmission of electricity to premises in the area specified in Schedule 1 during the period specified in paragraph 3 below, subject to -
  - (a) the standard conditions of electricity transmission licences referred to in-
    - (i) paragraph 1 of Part II below, which shall have effect in the licence; and
    - (ii) paragraph 2 of Part II below, which shall only have effect in the licence if brought into effect in accordance with the provisions of standard conditions A2 and A3,  
  
subject to such amendments to those conditions, if any, as set out in Part III below (together "the conditions");
  - (b) the special conditions, if any, set out in Part IV below ("the special conditions"); and
  - (b) such Schedules hereto, if any, as may be referenced in the conditions, the special conditions or the terms of the licence.
2. This licence is subject to transfer, modification or amendment in accordance with the provisions of the Act, the special conditions or the conditions.
3. This licence, unless revoked in accordance with Schedule 2, shall continue until determined by not less than 25 years' notice in writing given by the Authority to the licensee.
4. The provisions of section 109 (1) of the Act (Service of documents) shall have effect as if set out herein and as if for the words "this Act", there were substituted the words "this licence".
5. Without prejudice to sections 11 and 23(1) of the Interpretation Act 1978, Parts I to IV inclusive of, and the Schedules to this licence shall be interpreted and construed in like manner as an Act of Parliament passed after the commencement of the Interpretation Act 1978.
6. References in this licence to a provision of any enactment, where after the date of this licence -

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Transmission licensee (company number 2366977): Special Conditions Consolidated – 11 August 2006

- (a) the enactment has been replaced or supplemented by another enactment, and
- (b) such enactment incorporates a corresponding provision in relation to fundamentally the same subject matter,

shall be construed, so far as the context permits, as including a reference to the corresponding provision of that other enactment.

This licence was amended and restated by a licensing scheme made by the Secretary of State pursuant to Part II of Schedule 7 to the Utilities Act 2000 on 28 September 2001.

## PART II. THE STANDARD CONDITIONS

### 1. Standard conditions in effect in this licence

<b>Section A</b>	<b>Section B</b>
Standard Condition A1	Standard Condition B1
Standard Condition A2	Standard Condition B2
Standard Condition A3	Standard Condition B3
Standard Condition A4	Standard Condition B4
	Standard Condition B5
	Standard Condition B6
	Standard Condition B7
	Standard Condition B8
	Standard Condition B9
	Standard Condition B10
	Standard Condition B11
	Standard Condition B12
	Standard Condition B13
	Standard Condition B14

<b>Section C</b>	
Standard Condition C1	
Standard Condition C2	
Standard Condition C3	
Standard Condition C4	
Standard Condition C5	
Standard Condition C6	
Standard Condition C7	
Standard Condition C8	
Standard Condition C9	
Standard Condition C10	
Standard Condition C11	
Standard Condition C12	

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Standard Condition C13	
Standard Condition C14	
Standard Condition C15	
Standard Condition C16	
Standard Condition C17	
Standard Condition C18	
Standard Condition C20	
Standard Condition C21	
Standard Condition C22	
Standard Condition C23	

**2. Standard conditions not in effect in this licence**

<b>Section D</b>	
Standard Condition D1	
Standard Condition D2	
Standard Condition D3	
Standard Condition D4A	
Standard Condition D4B	
Standard Condition D5	
Standard Condition D6	
Standard Condition D12	
Standard Condition D15	

Note: A copy of the current standard conditions of electricity transmission licences can be inspected at the principal office of the Authority. The above lists are correct at the date of this licence but may be changed by subsequent amendments or modifications to the licence. The authoritative up-to-date version of this licence is available for public inspection at the principal office of the Authority.

**PART III. AMENDED STANDARD CONDITIONS**

**PART IV. SPECIAL CONDITIONS****Special Condition A. Definitions and interpretation**

1. Unless the context otherwise requires, words and expressions used in the standard conditions of this licence shall bear the same meaning in these special conditions.
2. Where a term is used in these special conditions and is also used in Section C of the standard conditions for electricity transmission licences then, unless the context otherwise requires, it shall have the same meaning in these special conditions as is ascribed to that term in Section C of the standard conditions.
3. Any reference in these special conditions to:
  - (a) a provision thereof;
  - (b) a provision of the standard conditions of electricity transmission licences;
  - (c) a provision of the standard conditions of electricity supply licences;
  - (d) a provision of the standard conditions of electricity distribution licences;
  - (e) a provision of the standard conditions of electricity generation licences;
  - (f) a provision of the standard conditions of electricity interconnector licences;

shall, if these or the standard conditions in question come to be modified, be construed, so far as the context permits as a reference to the corresponding provision of these or the standard conditions in question as modified.

**Special Condition AA. Transmission area**

England and Wales

**Special Condition B. Activities restrictions**

1. Subject to the provisions of paragraph 2 below (which are made in accordance with section 7(2A)(a) of the Act), the licensee is authorised by paragraph 1 of Part I of this licence to participate in the transmission of electricity for the purpose of giving a supply to any premises or enabling a supply to be so given.
2. The licensee shall not, outside its transmission area, obtain or obtain access to any assets comprising part of the GB transmission system which are intended for the purpose of conveying electricity except from another transmission licensee.

**Special Condition C. Pooling and Settlement Agreement run-off**

1. The licensee shall maintain for a minimum period of six years such records in respect of the period before the effective time of:
  - (a) generation sets and interconnector transfers available or declared as available;
  - (b) offer prices (including separate elements thereof) of generation sets and interconnector transfers declared as available;
  - (c) generation sets and interconnector transfers scheduled for despatch or despatched;
  - (d) ancillary services called for by the licensee and provided;
  - (e) kilowatt hours of electricity taken from the total system by any purchaser of electricity under the Pooling and Settlement Agreement; and
  - (f) imports and exports of electricity across any interconnectoras shall be reasonably necessary to give effect to the settlement system operated under the Pooling and Settlement Agreement.
  
2. The licensee shall give or send to any person requesting the same, but in each case only in respect of any 28 day period before the effective time:
  - (a) the bid prices (showing separately prices for start up, no-load heat and incremental heat rates) of each generation set and interconnector transfer offered in each period for which prices are bid over the preceding 28 days for despatch by any authorised electricity operator;
  - (b) declared (and, where different, actual) availability of generation sets (on a set-by-set basis) or interconnector transfers offered for despatch over the preceding 28 days by any authorised electricity operator; and

- 
- (c) the Pool Selling Price and the Pool Purchase Price as derived in respect of any period over the preceding 28 days pursuant to the terms of the Pooling and Settlement Agreement.
3. The licensee may make a charge for the information given or sent pursuant to paragraph 2 to any person not otherwise entitled to the same under the terms of the Pooling and Settlement Agreement of an amount which shall not exceed the maximum amount specified in directions issued by the Authority for the purposes of this condition.
4. The licensee shall provide to the Authority such information as the Authority shall request concerning the merit order system or any aspect of its operation.
5. The obligations of the licensee under this condition in relation to the period before the effective time shall continue notwithstanding any termination of the Pooling and Settlement Agreement on or after the effective time.
6. In this condition:
- |                      |  |
|----------------------|--|
| “ancillary services” | shall have the meaning given in standard condition 1 (Definitions and Interpretation) which was included in the licence granted or treated as granted under section 6(1)(b) of the Act immediately prior to the scheme effective date.   |
| "available"          | in relation to any generation set or interconnector transfer means a generation set or interconnector transfer which is both <ul style="list-style-type: none"> <li>(a) available in accordance with the licensee's Grid Code; and</li> <li>(b) declared as available for the</li> </ul> |

	generation of electricity in accordance with the provisions of the Pooling and Settlement Agreement.
"interconnector transfer"	means electricity generating capacity of an amount not exceeding the maximum capacity specified in any contract for use of the relevant interconnector as may at any time be available to generate electricity for transfer across the interconnector to the total system.
"licensee's Grid Code"	means the Grid Code which the licensee was required to have in force prior to the effective time by condition 8 which was included in the licensee's transmission licence granted or treated as granted under section 6(1)(b) of the Act.
"licensing scheme"	means the scheme made by the Secretary of State under section 138 and Schedule 17 to the Energy Act 2004.
"merit order system"	means a system applying in the period before the effective time and establishing economic precedence of electricity from available generation sets or interconnector transfers to be delivered or transferred to the total system (subject to other system needs).
"scheme effective date"	means the date on which the licensing scheme has effect.
"total system"	shall have the meaning given in standard

condition C1 (Interpretation of Section C) which was included in the licence granted or treated as granted under section 6(1)(b) of the Act immediately prior to the scheme effective date.

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**Special Condition D1. Transmission Network Revenue Restriction: Definitions**

1. In this special condition, and in special conditions D2 to D10 inclusive:

“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.
“base transmission revenue”	means...
“excluded services”	means those services provided by the licensee as part of its transmission business which in accordance with the principles set out in Special Condition D10 (Excluded Services) fall to be treated as excluded services.
“maximum revenue”	means the revenue calculated in accordance with the formula in paragraph 3 of special condition D2 (Restriction on Transmission Network Revenue).
“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

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	<p>apparatus or accessories for use by consumers of electricity (any use for receipts of payments for the use of electricity being disregarded);</p> <p>(b) as office premises of the licensee where those premises are not situated on operational land of the licensee; or</p> <p>(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.</p>
rateable value	has the meaning ascribed to it in the Local Government Finance Act 1988, Schedule 6 paragraph 2
“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.

“TIRG relevant year”

means, in relation to each transmission investment project  $i$  specified in Annex A of special condition D3 (Transmission Investment for Renewable Generation), the relevant year in which a revenue allowance falls to be made under special condition D3 (Transmission Investment for Renewable Generation) with respect to that transmission investment project  $i$ , where:

- (a)  $t=p$  means the relevant year commencing 1 April 2005;
- (b)  $t=p$  to  $t=-1$  means the preconstruction period (where  $p < -1$ );
- (c)  $t=0$  means the relevant year in which construction of that transmission investment project  $i$  commences;

- 
- (d)  $t=0$  to  $t=n$  means the construction period;
- (e)  $t=n$  means the relevant year in which that transmission investment project  $i$  is commissioned;
- (f)  $t=n+1$  means the relevant year in year 1 post commissioning period for that transmission investment project  $i$  and similar expressions shall be construed accordingly.
- “transmission network revenue” means the aggregate of revenue in the relevant year derived by the licensee from services provided in relation to its transmission owner activities and from remote transmission asset rentals.
- “transmission network revenue restriction” means special condition D2 (Restriction on Transmission Network Revenue), modified or replaced in accordance therewith or pursuant to sections 11, 14 or 15 of the Act.
- “transmission owner activities” means
- (i) the activities of the licensee or any affiliate or related undertaking relating to the medium to long term planning, development,

construction, maintenance and commercial management of the licensee's transmission system or the GB transmission system which is remunerated under special condition D2 (Restriction on Transmission Network Revenue), and (ii) excluded services.

“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 D2 to D10 inclusive, 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 D2 to D10 inclusive, and defined for the purposes of that 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 D2 to D10, any cost, charge, payment or amount may either be positive or negative.

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**Special Condition D2. Restriction on Transmission Network Revenue**

- 1 The purpose of this condition is to establish the charge restriction that determines the maximum revenue that the licensee may earn from its transmission owner activities.

**Transmission Network Revenue Restriction**

- 2 The licensee shall use its best endeavours to ensure that in any relevant year transmission network revenue shall not exceed the maximum revenue which shall be calculated in accordance with the formula given in paragraph 3 below.

***Formula for Transmission Network Revenue Restriction***

- 3 In respect of the relevant year commencing 1 April 2007 and each subsequent relevant year  $t$ , Maximum Revenue shall be calculated in accordance with the following formula:

$$TO_t = PR_t + TIRG_t + PT_t + IP_t + CxIncRA_t + IE_t - K_t$$

Where:

$TO_t$  means maximum revenue in the relevant year  $t$

$PR_t$  means base transmission revenue which, shall in respect of the relevant year commencing 1 April 2007 be calculated as:

$$PR_t = RBT \times PIT_t$$

where:

$RBT$  shall take the value £985.5 million; and

$PIT_t$  is the price index adjustment, and in the relevant year commencing 1 April 2004 shall take the value of 1 and in each subsequent relevant year shall be derived from the following formula:

$$PIT_t = \left[ 1 + \frac{RPI_t}{100} \right] \times PIT_{t-1},$$

and, in the relevant year commencing 1 April 2008 and each subsequent relevant year  $PR_t$  shall be calculated in accordance with the following formula:

$$PR_t = PR_{t-1} \times PIR_t$$

where:

$PIR_t$  means the price indexation adjustment in respect of the relevant year t and shall be calculated in accordance with the following formula:

$$PIR_t = \left( 1 + \frac{RPI_t + X}{100} \right) \times PIR_{t-1}$$

where

$RPI_t$  means the percentage change (whether of a positive or a negative value) in the arithmetic average of the Retail Price Index numbers published or determined with respect to each of the six months from May to October (both inclusive) in relevant year t-1 and that is published or determined with respect to the same months in relevant year t-2;

X shall take the value 2.0; and

in respect of the relevant year commencing 1 April 2007,  $PIR_t$  shall take the value of one ("1").

$TIRG_t$  means the revenue adjustment factor, whether of a positive or of a negative value, made in the relevant year t in respect of Transmission Investment for Renewable Generation as derived in accordance with special condition D3 (Transmission Investment for Renewable Generation)..

$PT_t$  means the revenue adjustment factor, whether of a positive or of a negative value, made in the relevant year t in respect of allowed pass

through items as derived in accordance with special condition D4 (Pass Through Items).

$IP_t$  means the total amount of incentive revenue, whether of a positive or of a negative value, calculated for the relevant year  $t$  in accordance with Special condition D5 (Incentive Payments).

$CxIncRA_t$  means the revenue adjustment factor, whether of a positive or of a negative value, made in the relevant year commencing 1 April 2012 in respect of the application of the capital expenditure incentive regime as calculated in accordance with Special Condition D9 (Capital Expenditure Incentive and Safety Net). For each relevant year prior to the relevant year commencing 1 April 2012 and for each relevant year after the relevant year commencing 1 April 2012 the value of  $CxIncRA_t$  shall be zero.

$IE_t$  means the allowance made in respect of the relevant year  $t$  representing the estimated costs incurred by the licensee in the relevant year in association with the issuance of new equity and shall take the value set out in the table below.

$IE_t$ in the Relevant Year commencing 1 April	2007	2008	2009	2010	2011
National Grid Electricity Transmission plc	Nil	Nil	Nil	Nil	Nil
Scottish Hydro-Electric Transmission Ltd	Nil	Nil	£3,250,000	£2,625,000	Nil
SP Transmission plc	Nil	Nil	Nil	£2,500,000	Nil

$K_t$  means the revenue restriction correction factor, whether of a positive or of a negative value, which is calculated in accordance with the formula below

$$K_t = (AR_{t-1} - TO_{t-1}) \times \left[ 1 + \frac{(I_t + PI_t)}{100} \right]$$

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.

Where:

- $AR_{t-1}$  means, subject to paragraph 3 of special condition D6 (Adjustments to Transmission Network Revenue), transmission network revenue, in respect of the relevant year t-1 provided that in calculating  $AR_{t-1}$  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..
- $TO_{t-1}$  means the maximum revenue in the relevant year t-1 except in the year 1<sup>st</sup> April 2007 where it shall be the maximum revenue ( $M_t$ ) as defined by Part 1 of Special Condition AA5A (xx) in the licence in force on 31 March 2007.
- $I_t$  means the average specified rate as defined in Special Condition D1 (Definitions).
- $PI_t$  means the penalty interest rate in relevant year t which is equal to, where  $(AR_{t-1} - TO_{t-1})$  has a positive value and 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 value four (4), otherwise is equal to the value zero (0).

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**Special Condition D3. Transmission Investment in Renewable Generation**

1. For each TIRG relevant year  $t$ ,  $TIRG_t$  shall be calculated in accordance with the following formula:

$$TIRG_t = \sum_{all\ i} TIRG_t^i$$

where  $TIRG_t^i$  means the annual revenue allowance in TIRG relevant year  $t$  for each transmission investment project  $i$  specified in Annex A.

2. For each TIRG relevant year  $t$ , the annual revenue allowance for each transmission investment project  $i$  specified in Annex A shall be calculated in accordance with the following formula:

$$TIRG_t^i = IPTIRG_t^i + TIRGIncAd_t^i + FTIRG_t^i + ETIRG_t^i + ATIRG_t^i$$

where:

$IPTIRG_t^i$  means the annual preconstruction and contingency revenue allowance for the transmission investment project  $i$  for the TIRG relevant years  $t=p$  to  $t=-1$  (where  $p \leq -1$ ) and shall be calculated in accordance with paragraph 3.

$TIRGIncAd_t^i$  means the sum of one or more preconstruction and contingency revenue allowance adjustment for a TIRG income adjusting event and each revenue allowance adjustment shall be determined by the Authority in accordance with paragraph 4.

$FTIRG_t^i$  means the annual construction revenue allowance for the transmission investment project  $i$  for the TIRG relevant years  $t=0$  to  $t=n$  and shall be calculated in accordance with paragraph 5.

$ETIRG_t^i$  means the annual incentive revenue allowance for the transmission investment project  $i$  for the TIRG relevant years  $t=n+1$  to  $t=n+5$  and shall be calculated in accordance

with paragraph 7.

$ATIRG_t^i$  means the actual annual revenue allowance for the transmission investment project  $i$  for the TIRG relevant years  $t=n+6$  to  $t=n+40$  and shall be determined by the Authority in accordance with paragraph 9.

**IPTIRG<sub>t</sub>**

3 For the purposes of paragraph 2, the term  $IPTIRG_t^i$  shall be calculated in accordance with the following formula:

$$IPTIRG_t^i = CFTIRG_t^i \times ARPI_t$$

where:

$CFTIRG_t^i$  means the forecast preconstruction and contingency costs for the transmission investment project  $i$  for TIRG relevant years  $t=p$  to  $t=-1$  (where  $p \leq -1$ ) and shall have the value specified in Annex A to this condition for each TIRG relevant year  $t$ , and where no value is specified in Annex A to this condition for a TIRG relevant year  $t$  shall have the value of zero (0).

$ARPI_t$  means the price index adjustment, which in the relevant year commencing 1 April 2004 equals 1, and in all subsequent years is derived from the following formula:

$$APRI_t = \left[ 1 + \frac{RPI_t}{100} \right] \times APRI_{t-1}$$

where:

$RPI_t$  shall have the same meaning as in paragraph 3 of special condition D2 (Transmission Network Revenue Restriction).

***TIRGIncAd – Income Adjusting Event***

4 (a) For the purposes of this paragraph, a TIRG income adjusting event means

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an event or circumstance occurring in the pre construction period that the Authority is satisfied causes costs and/or expenses to be incurred or saved in relation to the transmission investment project  $i$ , where the Authority is satisfied that those costs and/or expenses:

- (i) have resulted in, or are expected to result in, a material increase or decrease to the forecast preconstruction and contingency costs for the transmission investment project  $i$  for TIRG relevant years  $t=p$  to  $t=-1$  (where  $p \leq -1$ ) (CFTIRG $_t$ );
  - (ii) have been, or are expected to be, efficiently incurred or saved; and
  - (iii) can not otherwise be recovered under the TIRG revenue allowance provided under this Special Condition D3.
- (b) Where the licensee considers, and can provide supporting evidence that, a TIRG income adjusting event has occurred in respect of the transmission investment project  $i$ , then the licensee shall give notice of that event to the Authority as soon as is reasonably practicable after that event has occurred and in any event no longer than 3 months after the end of the TIRG relevant year  $t$  in which that event has occurred (or such later date as the Authority notifies to the licensee for the purposes of this subparagraph).
- (c) A notice provided under subparagraph (b) shall give particulars of:
- (i) the TIRG $_t$  income adjusting event to which the notice relates and the reason(s) why the licensee considers that event to be a TIRG $_t$  income adjusting event;
  - (ii) the costs and/or expenses that the licensee can demonstrate have been, or are expected to be, incurred or saved by that event and how the amount of those costs and/or expenses have been calculated;
  - (iii) the amount of any material increase or decrease in the forecast preconstruction and contingency costs for the transmission investment project  $i$  for TIRG relevant years  $t=p$  to  $t=-1$  (where  $p \leq -1$ ) (CFTIRG $_t$ ) that the licensee can demonstrate have been, or are expected to be, incurred or saved by that event and how the amount of that increase or decrease has been calculated;
  - (iv) the reasons why the licensee considers that the costs and/or

- 
- expenses can not otherwise be recovered under the TIRG revenue allowance provided by this Special Condition D3
- (iv) the amount of any  $\text{TIRGIncAd}_i^i$  income adjustment allowance proposed as a consequence of that event and how this  $\text{TIRGIncAd}_i^i$  income adjustment allowance has been calculated; and
  - (v) any other analysis or information which the licensee considers to be relevant to the Authority's assessment of that event.
- (d) Where the Authority receives a notice under subparagraph (b), the Authority shall determine (after consultation with the licensee and such other persons it considers necessary):
- (i) whether a TIRG income adjusting event has occurred in respect of the transmission investment project i; and
  - (ii) a  $\text{TIRGIncAd}_i^i$  income adjustment allowance in respect of the transmission investment project i.
- (e) Where the Authority determines under subparagraph (d) that a TIRG income adjusting event has occurred in respect of the transmission investment project i, the  $\text{TIRGIncAd}_i^i$  income adjustment allowance in respect of the transmission investment project i determined by the Authority under subparagraph (d) shall be such as to ensure that the financial position and performance of the licensee is, insofar as is reasonably practicable, the same as if that TIRG income adjusting event had not occurred, and in all other cases the  $\text{TIRGIncAd}_i^i$  income adjustment allowance in respect of the transmission investment project i determined by the Authority under subparagraph (d) shall be zero.
- (f) Where the Authority makes a determination under this paragraph, the Authority shall publish a notice stating the  $\text{TIRGIncAd}_i^i$  income adjustment allowance for the transmission investment project i and the reasons for the determination.
- (g) The Authority may revoke a determination made under this paragraph with the consent of the licensee.
- (h) For the purpose of paragraph 2, the term  $\text{TIRGIncAd}_i^i$  shall be the

TIRGINcAd<sub>t</sub><sup>i</sup> income adjustment allowance for the transmission investment project i determined by the Authority under subparagraph (d), and where the Authority has not made a determination under subparagraph (d) shall be zero.

- (i) Where the licensee notifies the Authority of a TIRG income adjusting event under subparagraph (b), the licensee shall ensure that the costs and/or expenses that are the subject of that notification are not also notified to the Authority in relation to any other revenue recovery arrangements.

**FTIRG<sub>t</sub>**

5 For the purposes of paragraph 2, the term FTIRG<sub>t</sub><sup>i</sup> shall be calculated in accordance with the following formula:

$$FTIRG_t^i = CCTIRG \times (FTIRGC_t^i + AFFTIRG_t^i) \times APRI_t + (FTIRGDepn_t^i + AFFTIRGDepn_t^i) \times APRI_t$$

where:

**CCTIRG** means the pre-tax cost of capital in real terms for the transmission investment project i for each TIRG relevant year t and for the purposes of this special condition shall take the value of eight point eight per cent (xx).

**FTIRGC<sub>t</sub><sup>i</sup>** means the average asset value for the transmission investment project i for each of the TIRG relevant years t=0 to t=n and shall be determined as follows:

- (a) where the licensee has not been granted planning consent to build the transmission investment project i, FTIRGC<sub>t</sub><sup>i</sup> shall be zero; and
- (b) where the licensee has been granted planning consent to build the transmission investment project i, FTIRGC<sub>t</sub><sup>i</sup> shall have the value specified in Annex A to this condition for each TIRG relevant year t, and where no value is specified in Annex A of this condition for a TIRG relevant year t shall have the value of zero.

- $AFFTIRG_t^i$  means one or more adjustment to the average asset value for the transmission investment project  $i$  for the TIRG relevant years  $t=0$  to  $t=n$  ( $FTIRGC_t^i$ ) as a result of a TIRG asset value adjusting event and each adjustment shall be determined by the Authority in accordance with paragraph 6.
- $ARPI_t$  shall have the meaning given in paragraph 3.
- $FTIRGDepn_t^i$  means the depreciation value for the transmission investment project  $i$  for each of the TIRG relevant years  $t=0$  to  $t=n$  and shall be determined as follows:
- (a) where the licensee has not been granted planning consent to build the transmission investment project  $i$ ,  $FTIRGDepn_t^i$  shall be zero; and
  - (b) where the licensee has been granted planning consent to build the transmission investment project  $i$ ,  $FTIRGDepn_t^i$  shall have the value specified in schedule B for each TIRG relevant year  $t$ , and where no value is specified in Schedule B for a TIRG relevant year  $t$  shall have the value of zero.
- $AFFTIRDepn_t^i$  means one or more adjustment to the depreciation value for the transmission investment project  $i$  for the TIRG relevant years  $t=0$  to  $t=n$  ( $FTIRGDepn_t^i$ ) as a result of a TIRG asset value adjusting event and each adjustment shall be determined by the Authority in accordance with paragraph 6.

6. (a) For the purpose of this paragraph, a TIRG asset value adjusting event means relevant additional preconstruction works or a relevant amendment to the scope of construction works that the Authority is satisfied is expected to cause costs and/or expenses to be incurred or saved in relation

to the transmission investment project  $i$ , where the Authority is satisfied that those costs and expenses:

- (i) are expected to result in a material increase or decrease to the average asset value for the transmission investment project  $i$  for the TIRG relevant years  $t=0$  to  $t=n$  ( $FTIRGC_t^i$ );
  - (ii) are expected to be efficiently incurred or saved; and
  - (iii) can not otherwise be recovered under the TIRG revenue allowance provided by this Special Condition D3.
- (b) For the purposes of subparagraph (a) –
- (i) “relevant additional preconstruction works” means preconstruction works expected to be carried out by the licensee during the TIRG relevant years  $t=0$  to  $t=n$  as a result of the terms and/or conditions of any statutory consent, approval or permission in respect of the transmission investment project  $i$  (including but not limited to planning consent); and
  - (ii) “relevant amendment to the scope of construction works” means an amendment to the scope of construction works that:
    - (a) is necessary to comply with the terms and/or conditions of any statutory consent, approval or permission in respect of the transmission investment project  $i$  (including but not limited to planning consent); or
    - (b) is necessary to comply with technical, engineering or planning constraints in respect of the transmission investment project  $i$  that are identified by the licensee during preconstruction work.
- (c) Where the licensee considers, and can provide supporting evidence that, a TIRG asset value adjusting event has occurred in relation to the transmission investment project  $i$ , then the licensee shall give notice of that event to the Authority as soon as is reasonably practicable after that event has occurred and in any event prior to TIRG relevant year  $t=0$  (or at such later date as the Authority notifies to the licensee for the purposes of this subparagraph).
- (d) A notice provided under subparagraph (c) shall be accompanied by a statement from independent technical advisors setting out the additional

preconstruction works / amended scope of construction works (as appropriate) and a statement from independent auditors setting out that in their opinion the notice fairly presents the costs and expenses expected to be incurred or saved by the additional preconstruction works / amended scope of construction works (as appropriate) and shall give particulars of:

- (i) the TIRG asset value adjusting event to which the notice relates and the reason(s) why the licensee considers that event to be a TIRG asset value adjusting event;
- (ii) the costs and/or expenses that the licensee can demonstrate are expected to be incurred or saved by that event and how the amount of those costs and/or expenses have been calculated;
- (iii) the amount of any material increase or decrease in the average asset value for the transmission investment project  $i$  for TIRG relevant years  $t=0$  to  $t=n$  ( $FTIRGC_t$ ) that the licensee can demonstrate is expected to occur as a result of that event and how the amount of that increase or decrease has been calculated;
- (iv) the reasons why the licensee considers that the costs and/or expenses can not otherwise be recovered under the TIRG revenue allowance provided by this Special Condition D3
- (v) the amount of any  $AFFTIRG_t^i$  adjustment proposed as a consequence of that event and how this  $AFFTIRG_t^i$  adjustment has been calculated;
- (vi) the amount of any increase or decrease in the depreciation value for the transmission investment project  $i$  for the TIRG relevant years  $t=0$  to  $t=n$  ( $FTIRGDepn_t^i$ ) that the licensee can demonstrate is expected to occur as a result of that event and how the amount of that increase or decrease has been calculated;
- (vii) the amount of any  $AFFTIRGDepn_t^i$  adjustment proposed as a consequence of that event and how this  $AFFTIRGDepn_t^i$  adjustment has been calculated; and
- (viii) any other analysis or information which the licensee considers to be relevant to the Authority's assessment of that event.

- 
- (e) Where the Authority receives a notice under subparagraph (c), the Authority shall determine (after consultation with the licensee and such other persons it considers necessary):
- (i) whether a TIRG asset value adjusting event has occurred in respect of the transmission investment project i;
  - (ii) where the Authority determines that a TIRG asset value adjusting event has occurred in respect of the transmission investment project i, whether the transmission investment project i will remain economically efficient as a consequence of that TIRG asset value adjusting event; and
  - (iii) a  $AFFTIRG_t^i$  adjustment in respect of the transmission investment project i. and
  - (iv) a  $AFFTIRGDepn_t^i$  adjustment in respect of the transmission investment project i.
- (f) Where the Authority determines under subparagraph (e) that a TIRG asset value adjusting event has occurred in respect of the transmission investment project i and that the transmission investment project i will remain economically efficient as a consequence of that TIRG asset value adjusting event, the  $AFFTIRG_t^i$  and  $AFFTIRGDepn_t^i$  adjustments in respect of the transmission investment project i determined by the Authority under subparagraph (e) shall be such as to ensure that the financial position and performance of the licensee is, insofar as is reasonably practicable, the same as if that TIRG asset value adjusting event had not occurred, and in all other cases the  $AFFTIRG_t^i$  and  $AFFTIRGDepn_t^i$  adjustments in respect of the transmission investment project i determined by the Authority under subparagraph (e) shall be zero.
- (g) Where the Authority makes a determination under this paragraph, the Authority shall publish a notice stating the  $AFFTIRG_t^i$  and  $AFFTIRGDepn_t^i$  adjustments for the transmission investment project i and the reasons for the determination.
- (h) The Authority may revoke a determination made under this paragraph with the consent of the licensee.

- (i) For the purpose of paragraph 5, the terms  $AFFTIRG_t^i$  and  $AFFTIRGDepn_t^i$  shall be the  $AFFTIRG_t^i$  and  $AFFTIRGDepn_t^i$  adjustments for the transmission investment project  $i$  determined by the Authority under subparagraph (e), and where the Authority has not made a determination under subparagraph (e) shall be zero.
- (j) Where the licensee notifies the Authority of a TIRG income adjusting event under subparagraph (c), the licensee shall ensure that the costs and/or expenses that are the subject of that notification are not also notified to the Authority in relation to any other revenue recovery arrangements.

### **ETIRG<sub>t</sub>**

- 7 For the purpose of paragraph 2, the term  $ETIRG_t^i$  shall be calculated in accordance with the following formula:

$$ETIRG_t^i = (CCTIRG \times (ETIRGC_t^i \times SAFRTIRG_t^i) \times APRI_t) + (Dep_t^i \times SAFRTIRG_t^i \times APRI_t)$$

where:

**CCTIRG** shall have the meaning given in paragraph 5.

**$ETIRGC_t^i$**  means the average asset value for the transmission investment project  $i$  for each of the TIRG relevant years  $t=n+1$  to  $t=n+5$  and shall have the value specified in Annex A for each TIRG relevant year  $t$ , and where no value is specified in Annex A for a TIRG relevant year  $t$  shall have the value of zero.

**$SAFRTIRG_t^i$**  means an adjustment factor to the average asset value for the transmission investment project  $i$  for each of the TIRG relevant years  $t=n+1$  to  $t=n+5$  ( $ETIRGC_t$ ) and shall have the value of 1 unless otherwise determined by the Authority by TIRG relevant year  $t=n+1$  in accordance with the following formula:

$$SAFTIRG^i = \left( \frac{SAFTIRG^i}{ETIRGORAV^i} \right)$$

where:

$SAFTIRG^i$  means the opening asset value for the transmission investment project  $i$  determined by the Authority by TIRG relevant year  $t=n+1$  in accordance with paragraph 8.

$ETIRGORAV^i$  means the opening regulated asset value for the transmission investment project  $i$  at TIRG relevant year  $t=n+1$  and shall have the value specified in Annex A.

$ARPI_t$  shall have the meaning given in paragraph 3.

$Dep_t^i$  means the annual depreciation allowance for TIRG relevant year  $t$  and shall have the value specified in Annex A.

- 8 (a) The Authority shall determine (in consultation with the licensee and such other persons it considers necessary) the value of the term  $SAFTIRG^i$  with respect to the transmission investment project  $i$  by TIRG relevant year  $t=n+1$  where the Authority has received a post construction expenditure report and a post construction technical report in respect of the transmission investment project  $i$  in accordance with standard condition B15.
- (b) Where the Authority makes a determination under this paragraph, the Authority shall have regard to the following:
- (i) whether the final aggregate transmission investment expenditure set out in the post construction expenditure report has been efficiently incurred;
  - (ii) the extent to which the licensee has complied with the output measures specified in Annex A for the transmission investment

- project i as set out in the post construction technical report;
- (iii) whether an adjustment has been made to the average asset value for the transmission investment project i for the TIRG relevant years  $t=0$  to  $t=n$  under paragraph 6 (AFFTIRG adjustment);
  - (iv) whether an adjustment has been made to the depreciation value for the transmission investment project i for the TIRG relevant years  $t=0$  to  $t=n$  under paragraph 6 (AFFTIRGDepn<sup>i</sup> adjustment); and
  - (v) any other information the Authority considers to be relevant to the determination.
- (c) Where the Authority makes a determination under this paragraph, the Authority shall publish a notice stating the SAFTIRG<sup>i</sup> opening asset value for the transmission investment project i and the reasons for the determination.
- (d) The Authority may revoke a determination made under this paragraph with the consent of the licensee.

**ATIRG**

9. For the purposes of paragraph 2 the term ATIRG<sup>i</sup> shall be determined by the Authority (in consultation with the licensee and such other persons the Authority considers necessary) by TIRG relevant year  $t=n+5$  in accordance with the principle that efficiently incurred costs shall be recoverable by the licensee.

**Annex A to Special Condition D3: Supplementary Provisions**National Grid**England – Scotland Interconnection****East coast and west coast reinforcement combined costs**

Pre construction, contingency and construction costs

<b>project costs (£ 000) 2004 prices</b>	<b>t=p</b>	<b>t=0</b>	<b>t=1</b>	<b>t=2</b>	<b>t=3</b>	<b>t=n</b>
Forecast pre-construction and contingency costs (CFTIRG <sub>t</sub> )	1,976	n/a	n/a	n/a	n/a	n/a
Forecast Construction Costs		12,248	25,814	30,210	24,444	12,264
Average asset value during construction period (FTIRGC <sub>t</sub> )	n/a	6,124	24,848	51,603	76,271	90,601
Depreciation during Construction (FTIRGDepn)			612	1903	3414	4636

Post construction revenue

<b>Project costs (£ 000) 2004 prices</b>	<b>t=n+1</b>	<b>t=n+2</b>	<b>t=n+3</b>	<b>t=n+4</b>	<b>t=n+5</b>
Opening RAV (ETIRGORAV)	94,415				
Dep <sub>t</sub> <sup>i</sup>	4,721	4,721	4,721	4,721	4,721
Average asset value during efficiency period (ETIRGC <sub>t</sub> )	92,055	87,334	82,613	77,893	73,172

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.

## Output measures

### East coast interconnection

All figures are equivalent reactances (X) of the two circuits in each branch connected in parallel in % on 100MVA. The three branches are:

- A tee point to Scottish border (400kV circuit)
- B tee point to Stella West 400kV (400kV circuit)
- C tee point to Blyth 275kV (400kV circuit, and two 400/275kV transformers)

The 'combined figure' is the reactance between the Scottish border and the 275kV network in the NE of England, calculated by:

line A in series with (B' paralleled with C), where:

B' is line B in series with the existing 4 400/275kV transformers at Stella West.

Scope of work	Impedance as at 31 March 2005	Forecast impedance prior to construction start date	Forecast impedance post construction
Reduction in line impedance			
<b>Line A</b>	0.883	0.883	0.721
<b>Line B</b>	0.070	0.070	0.059
<b>Line C</b>	N/A	N/A	1.128
<b>Combined impedance</b>	1.349	1.349	1.045

Scope of work	Circuit ratings as at 31 March 2005		Forecast circuit ratings prior to construction start date		Forecast circuit ratings post construction	
	Winter (MVA)	Summer (MVA)	Winter (MVA)	Summer (MVA)	Winter (MVA)	Summer (MVA)
<b>Line A</b>	1390	1110	1390	1110	3070	2420
<b>Line B</b>	1390	1110	1390	1110	3070	2420
<b>Line C</b>	955	760	955	760	1390	1110

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All circuit ratings are post-fault continuous capabilities @ 50 degrees centigrade operation.

The Line C rating in advance of construction reflects operation at 275kV whereas the rating after construction reflects 400kV operation.

Circuit thermal ratings may differ from the conductor ratings due to limitations in switchgear, down droppers or protection.

### **West coast interconnection**

<b>Project scope</b>	Capability as at 31 March 2005 kV (MVA)	Forecast capability one year prior to construction kV (MVA)	Forecast capability post construction kV (MVA)
Line upgrade from Scotland-England border to Harker substation	275 (1130)	275 (1130)	400 (2010)

### **England-Scotland interconnection– reactive compensation**

Install a 150Mvar mechanically switched capacitor bank at a location to be chosen by the licensee so as to maximise its effectiveness given the particular reinforcements to be undertaken in Scotland.

**Special Condition D4. Pass Through Items**

1. For each relevant year  $PT_t$  is derived from the following formula

$$PT_t = TSP_t + TSH_t + LF_t + RB_t - GC_t + ITC_t + ER_t$$

Where

$TSP_t$  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.

$LF_t$  means the revenue adjustment factor, whether of a positive or of a negative value, calculated in the relevant year t in respect of licence fee payments as derived from the formula set out in paragraph 2.

$RB_t$  means the revenue adjustment factor, whether of a positive or of a negative value, calculated in the relevant year t in respect of non-domestic rates as derived from the formula set out in paragraph 3.

$GC_t$  means the revenue adjustment factor, whether of a positive or of a negative value, calculated in the relevant year t in respect of revenue earned by the licensee from Grid Com Ltd (registered number 2973983) for tower space rental as derived from the formula set out in paragraph 6.

$ITC_t$  means this shall take the value 0 unless otherwise determined by the Authority in the event of the participation by GB in a European Union inter-TSO compensation scheme, and following consultation with other interested parties.

$ER_t$  means the price control extension reconciliation revenue adjustment factor, which in the relevant year commencing 1 April 2007 shall be calculated in accordance with the formula set out in paragraph 7. In respect of the relevant year commencing 1 April 2008 and each subsequent relevant year t,  $ER_t$  shall take the value zero.

**Formula for the Licence Fee Revenue Adjustment**

2. For the purposes of paragraph 1,  $LF_t$  shall be calculated in accordance with the following formula:

$$LF_t = (LP_t - LA_t) + \left( L_t \times \left( 1 + \frac{I_t}{100} \right) \right)$$

Where:

$LP_t$  means an amount equal to the payments made by the licensee, in the relevant year t, in accordance with its obligations set out in standard licence condition A4 (Payments to the Authority) (being for the avoidance of doubt, £million in money of the day).

$LA_t$  is derived from the following formula:

$$LA_t = PF_t \times PIT_t$$

Where:

$PF_t$  is the amount, in £ million, of the licence fee payments allowance for the relevant year t (in 2004/05 prices) as set out:

Relevant year t commencing on 1 April	2007	2008	2009	2010	2011

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.

PF <sub>t</sub>	£12.4 m	£12.2 m	£12.0 m	£11.8 m	£11.9 m
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and in all subsequent relevant years commencing on or after 1 April 2012 PF<sub>t</sub> shall take the value £11.9 million.

PIT<sub>t</sub> is the price index adjustment, and in the relevant year commencing 1 April 2004 shall take the value of 1 and in each subsequent relevant year shall be derived from the following formula:

$$PIT_t = \left[ 1 + \frac{RPI_t}{100} \right] \times PIT_{t-1}$$

Where RPI is determined in accordance with paragraph 3 of special condition D2.

L<sub>t</sub> shall, in respect of the relevant year commencing 1 April 2007, be calculated as the difference between the actual licence fee payable by the licensee in the relevant year commencing 1 April 2006 pursuant to standard condition A4 (Payments to the Authority) (being for the avoidance of doubt, £million in money of the day) and the estimate made in respect of that relevant year of £13.2 million. In the relevant year commencing 1 April 2008 and each subsequent relevant year L<sub>t</sub> shall take the value zero (0).

**Formula for the Non-domestic rates Revenue Adjustment**

- For the purposes of paragraph 1, subject to paragraph 4 below, RB<sub>t</sub> is an amount calculated in accordance with the following formula:

$$RB_t = RP_t - RA_t$$

Where:

$RP_t$  is the amount payable by the licensee, in respect of the relevant year  $t$ , in respect of non-domestic rates.

$RA_t$  is the non-domestic rates allowance, and is derived from the following formula:

$$RA_t = RV_t \times PIT_t$$

where:

$RV_t$  is the non-domestic rates allowance in 2004/05 prices, and shall take the value set out in the table below:

Relevant year $t$ commencing on 1 April	2007	2008	2009
$RV_t$	£89.2 m	£89.2 m	£89.2 m

$PIT_t$  is the price index adjustment, and in the relevant year commencing 1 April 2004 shall take the value of 1 and in each subsequent relevant year shall be derived from the formula set out in paragraph 2.

4. From the relevant year commencing 1 April 2010  $RB_t$  shall equal zero, unless otherwise directed by the Authority on or before 31 March 2010.
5. A direction made by the Authority in respect of paragraph 4 of this condition will specify:
  - a. that in respect of the relevant year commencing 1 April 2010,  $RB_t$  shall be calculated in accordance with the formula set out in paragraph 3 of this condition; and
  - b. that for the purposes of the calculation referred to in sub-paragraph a) the values of  $RV_t$  that shall apply in respect of the relevant years commencing 1 April 2010 and 1 April 2011.

**Formula for the Grid Com revenue adjustment**

6. For the purposes of paragraph 1,  $GC_t$  is an amount calculated in accordance with the following formula:

$$GC_t = 0.3 \times GCR_{t-2}$$

where:

$GCR_{t-2}$  is the revenue received in the relevant year t-2 by the licensee from Grid Com Ltd (registered number 2973983) for tower space rental.

**Formula for the Price Control Extension Reconciliation revenue adjustment**

7. For the purposes of paragraph 1, in the relevant year commencing 1 April 2007,  $ER_t$  shall be calculated in accordance with the following formula:

$$ER_t = RER_t \times PIT_t$$

where:

$RER_t$  means the allowance in respect of the revenue reconciliation adjustment and shall take the value £0.7 million; and

$PIT_t$  is the price index adjustment, and in the relevant year commencing 1 April 2004 shall take the value of 1 and in each subsequent relevant year shall be derived from the formula set out in paragraph 2.

### **Special Condition D5. Incentive Payments**

1. For the purposes of paragraph 3 of special condition D2 (Restriction on Transmission Network Revenue)  $IP_t$  is derived from the following formula:

$$IP_t = RI_t + IFI_t + SFI_t$$

Where

$RI_t$  means the revenue adjustment factor, whether of a positive (subject to paragraph 3) or of a negative value, 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 paragraph 2.

$IFI_t$  means the revenue adjustment factor in respect of expenditure pursuant to the Innovation Funding Incentive and shall be calculated in accordance with paragraph 11.

$SFI_t$  means the revenue adjustment factor in respect of rates of leakage of SF<sub>6</sub> and shall be calculated in accordance with paragraph 14.

### **Part 1 – Adjustment to Transmission Network Revenue Restriction due to Transmission Network Reliability Incentive Scheme**

2. For the purpose of paragraph 1, the term  $RI_t$  shall be derived from the following formula:

$$RI_t = PR_{t-1} \cdot RAF_y$$

Where:

$RI_t$  in the relevant year t is the transmission network reliability incentive performance during incentive period y which shall equate to the relevant year t-1.

$PR_{t-1}$  shall, in respect of the relevant year commencing on 1 April 2007, take the value £1,000,380,000. In the relevant year commencing 1 April 2008 and in each subsequent relevant year  $PR_{t-1}$  shall be construed as the value of  $PR_t$  calculated in accordance with the formula specified in paragraph 3 of Special Condition D2 in respect of the relevant year  $t-1$ .

$RAF_y$  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 volume target in respect of incentive period  $y$ , which has the value as specified in the following table:

Relevant year t	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Incentive Period y	1 April 2006 to 31 March 2007	1 April 2007 to 31 March 2008	1 April 2008 to 31 March 2009	1 April 2009 to 31 March 2010	1 April 2010 to 31 March 2011	1 April 2011 to 31 March 2012
<b>RIUT<sub>y</sub></b>	<b>248MWh</b>	<b>237MWh</b>	<b>237MWh</b>	<b>237MWh</b>	<b>237MWh</b>	<b>237MWh</b>

RIUT<sub>y</sub> is the upper incentivised loss of supply volume target in respect of incentive period y, which has the value as specified in the following table:

Relevant year t	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Incentive Period y	1 April 2006 to 31 March 2007	1 April 2007 to 31 March 2008	1 April 2008 to 31 March 2009	1 April 2009 to 31 March 2010	1 April 2010 to 31 March 2011	1 April 2011 to 31 March 2012
<b>RIUT<sub>y</sub></b>	<b>274MWh</b>	<b>263MWh</b>	<b>263MWh</b>	<b>263MWh</b>	<b>263MWh</b>	<b>263MWh</b>

RIUPA<sub>y</sub> is the maximum upside percentage adjustment in respect of incentive period y, which, subject to paragraph 3, has the value as specified in the following table:

Relevant year t	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Incentive Period y	1 April 2006 to 31 March 2007	1 April 2007 to 31 March 2008	1 April 2008 to 31 March 2009	1 April 2009 to 31 March 2010	1 April 2010 to 31 March 2011	1 April 2011 to 31 March 2012

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.

<b>RIUPA<sub>y</sub></b>	<b>1.0%</b>	<b>1.0%</b>	<b>1.0%</b> <b>(subject to paragraph h 3)</b>	<b>1.0%</b> <b>(subject to paragraph h 3)</b>	<b>1.0%</b> <b>(subject to paragraph h 3)</b>	<b>1.0%</b> <b>(subject to paragraph h 3)</b>
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**RIDPA<sub>y</sub>** is the maximum downside percentage adjustment in respect of incentive period  $y$ , which has the value as specified in the following table:

Relevant year $t$	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Incentive Period $y$	1 April 2006 to 31 March 2007	1 April 2007 to 31 March 2008	1 April 2008 to 31 March 2009	1 April 2009 to 31 March 2010	1 April 2010 to 31 March 2011	1 April 2011 to 31 March 2012
<b>RIDPA<sub>y</sub></b>	<b>-1.5%</b>	<b>-1.5%</b>	<b>-1.5%</b>	<b>-1.5%</b>	<b>-1.5%</b>	<b>-1.5%</b>

**RICOL<sub>y</sub>** is the incentivised loss of supply collar in respect of incentive period  $y$  which has the value as specified in the following table:

Relevant year $t$	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Incentive Period $y$	1 April 2006 to 31 March 2007	1 April 2007 to 31 March 2008	1 April 2008 to 31 March 2009	1 April 2009 to 31 March 2010	1 April 2010 to 31 March 2011	1 April 2011 to 31 March 2012
<b>RICOL<sub>y</sub></b>	<b>653MWh</b>	<b>619MWh</b>	<b>619MWh</b>	<b>619MWh</b>	<b>619MWh</b>	<b>619MWh</b>

$RIP_y$  is the sum of the volumes of unsupplied energy in all incentivised loss of supply events in incentive period  $y$ .

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

3. For the purposes of calculating  $RAF_y$ ,  $RIUPA_y$  shall take the value zero from 1 April 2009 if the licensee fails to implement an approved network output measures methodology in accordance with standard condition B17 by 31 March 2009.
4. 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 de-energisation or disconnection of a user’s equipment under an event of default as defined in the CUSC;
  - (d) any unsupplied energy resulting from a user’s request for disconnection in accordance with in the Grid Code; and
  - (e) any unsupplied energy resulting from emergency de-energisation by a user as defined in the CUSC.
5. For the purpose of paragraph 4 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.

## 6. 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 volume of unsupplied energy that the licensee considers resulted from 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 sub-paragraph (b) is an exceptional event

the Authority may, by notice to the licensee, direct that, for the purpose of calculating the volume of unsupplied energy for the relevant incentivised loss of supply event the constituent data relevant to that event shall be adjusted as specified in that direction.

- 7. For the purpose of paragraph 6, 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).
- 8. A direction under paragraph 6 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.

9. For the purpose of paragraph 6, 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 50 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.

## **Part 2 – Calculation of charge restriction adjustments arising from the innovation funding incentive scheme**

10. The purpose of this condition is to provide for adjustments to maximum revenue to reflect performance of the licensee in relation to its investment in innovation under the Innovation Funding Incentive (IFI) scheme.
11. For the purposes of paragraph 1,  $IFI_t$  is derived for the relevant year  $t$  from the formula:

$$IFI_t = ptr_t \times (\min(IFIE_t, (\max((£500,000 + KIFI_t), ((0.005 \times PR_t) + KIFI_t))))))$$

Where:

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IFIE <sub>t</sub>	means the eligible expenditure for the relevant year t as reported in the IFI annual report for that year
PR <sub>t</sub>	means the regulated transmission revenue in year t as determined in paragraph 3 of special condition D2
ptr <sub>t</sub>	is the pass-through factor applicable for the relevant year t shall in the relevant year commencing 1 April 2007 and each subsequent relevant year take the value 0.8.
KIFI <sub>t</sub>	is the carry forward in relation to the incentive scheme as set out in the IFI annual report for relevant year t-1, and is calculated from the following formula:

$$KIFI_t = \begin{cases} 0.5 * 0.005 * RT_{t-1}, & \text{if } IFIE_{t-1} \leq (0.5 * 0.005 * RT_{t-1}), \\ (0.005 * RT_{t-1}) - IFIE_{t-1}, & \text{if } IFIE_{t-1} > (0.5 * 0.005 * RT_{t-1}) \text{ and } IFIE_{t-1} \leq (0.005 * RT_{t-1}), \\ 0, & \text{if } IFIE_{t-1} > (0.005 * RT_{t-1}); \end{cases}$$

Where, for the year commencing 1 April 2007, KIFI<sub>t</sub>, shall be zero

12. For the purposes of this condition:

“eligible IFI expenditure”	means the amount of expenditure spent or accrued by the licensee in respect of eligible IFI projects;
“eligible IFI internal expenditure”	means the amount of eligible IFI expenditure spent or accrued on the internal resources of the licensee;
“eligible IFI projects”	means those projects that meet the requirements described for such projects; and

“IFI annual report” means the report produced each year by the licensee, in a format agreed with the Authority, in respect of expenditure and innovation.

### **Part 3 - adjustment to restriction of transmission charges due to SF<sub>6</sub> incentive**

13. The purpose of this condition is to provide for adjustments to allowed revenue to reflect performance of the licensee in relation to its Sulphur Hexafluoride (SF<sub>6</sub>) incentive scheme.

14. For the purposes of paragraph 1, SFI<sub>t</sub>, shall where  $ALK_t < TLK_t$  be calculated in accordance with the following formula:

$$SFI_t = 0.002 \times PR_t$$

otherwise: SFI<sub>t</sub> shall take the value zero (0).

Where:

PR<sub>t</sub> means the licensee’s base transmission regulated revenue, as defined in paragraph 3 of special condition D3

ALK<sub>t</sub> means the actual leakage rate of SF<sub>6</sub> gas in relevant year t as a percentage of inventory of SF<sub>6</sub> gas as reported by the licensee pursuant to the Regulatory Instructions and Guidance issued in accordance with standard condition B16.

TLK<sub>t</sub> means the target leakage rate of SF<sub>6</sub> gas in relevant year t as a percentage of inventory of SF<sub>6</sub> and shall take the values in the table below:

Relevant year t	2007/08	2008/09	2009/10	2010/11	2011/12
TLK <sub>t</sub>	3.00%	2.75%	2.50%	2.25%	2.00%

15. The licensee shall on or before 1 April 2007 or such later date as the Authority may direct, determine and prepare a leakage rate of SF<sub>6</sub> methodology statement to be approved by the Authority, setting out the methodology by which the licensee will determine the leakage rate of SF<sub>6</sub> gas, required for the calculation of the actual leakage rate of SF<sub>6</sub> gas, ALK<sub>t</sub>, and the target leakage rate of SF<sub>6</sub> gas, TLK<sub>t</sub>.
16. Unless the Authority otherwise directs within 2 months of the date specified in paragraph 15, the licensee shall take all reasonable steps to apply the methodology set out in the statement in calculating the leakage rate of SF<sub>6</sub> gas in relation to calculating the actual leakage rate of SF<sub>6</sub> gas, ALK<sub>t</sub>, and the target leakage rate of SF<sub>6</sub> gas, TLK<sub>t</sub>.
17. Before revising the methodology referred to in paragraph 15 the licensee shall submit to the Authority a copy of the proposed revisions to the methodology.
18. Unless the Authority otherwise directs within 1 month of the Authority receiving any proposed revisions to the methodology under paragraph 17, the licensee shall take all reasonable steps to apply the methodology revised in accordance with such proposed revisions.
19. Where:
- a. the licensee considers that any event on the licensee's transmission system that causes leakage of SF<sub>6</sub> gas 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 sub-paragraph (b) is an exceptional event

the Authority may, by notice to the licensee, direct that the actual leakage of SF<sub>6</sub> gas and the value of ALK<sub>t</sub> in relevant year t shall be adjusted as specified in that direction. In directing the value of any adjustment to ALK<sub>t</sub> in relevant year t pursuant to this paragraph, the Authority shall reserve the right to modify the value of any proposed adjustment notified by the licensee that may be made to ALK<sub>t</sub> in relevant year t.

20. For the purpose of paragraph 19, any adjustment directed by the Authority shall take account of the extent to which the Authority is satisfied that the licensee had taken reasonable steps to prevent the event from resulting in the leakage of SF<sub>6</sub> and to mitigate its effect (both in anticipation and subsequently).

21. A direction under paragraph 19 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.

22. For the purpose of paragraph 19, an “exceptional event” means an event or circumstance that is beyond the reasonable control of the licensee and which results in or causes the leakage of SF<sub>6</sub> gas 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), 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.
23. Without prejudice to paragraph 22, an “exceptional event” may include circumstances where a significant danger to the public gives rise to the licensee prioritising health and safety over the reduction of leakage of SF<sub>6</sub> gas at a particular site.

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**Special Condition D6. Adjustments to Transmission Network Revenue**

1. If, in respect of any relevant year, the transmission network revenue exceeds the maximum revenue by more than 3 percent of the latter, the licensee shall furnish an explanation to the Authority and in the next following relevant year the licensee shall not effect any increase in charges for the provision of transmission network services unless it has demonstrated to the reasonable satisfaction of the Authority that the transmission network revenue would not be likely to exceed the maximum revenue in that next following relevant year.
2. If, in respect of any two successive relevant years, the sum of the amounts by which the transmission network revenue has exceeded the maximum revenue is more than 4 percent of the maximum revenue for the second of those years, then in the next following relevant year the licensee shall, if required by the Authority, adjust its charges such that the transmission network revenue would not be likely, in the judgement of the Authority, to exceed the maximum revenue in that next following relevant year.
3. If, in respect of two successive relevant years, the transmission network revenue is less than 90 percent of the maximum revenue, the Authority, after consultation with the licensee, may direct that, in calculating  $K_t$  in respect of the next following relevant year, there shall be substituted for  $AR_{t-1}$  in the formula set out in paragraph 3 of special condition D2 (Restriction on Transmission Network Revenue) above such figure as the Authority may specify being not less than  $AR_{t-1}$  and not more than  $0.90(TO_{t-1})$ .

**Special Condition D7. Allowance in Respect of Security Costs**

1. At any time during a security period, the licensee may give notice in writing to the Authority suspending, with effect from the date of receipt of the notice by the Authority, application of such of the transmission network revenue restriction as may be specified in the notice for the unexpired term of the security period.
2. At any time during a security period, the Authority may (having regard to his duties under the Act) by means of directions:
  - (a) suspend or modify for the unexpired term of the security period the transmission network revenue restriction or any part or parts thereof; or
  - (b) introduce for the unexpired term of the security period a new transmission network revenue restriction,

in either case so as to make such provision as in the opinion of the Authority is requisite or appropriate to enable the licensee to recover by means of an appropriate equitable increase on all charges made in the course of the provision of transmission network services an amount estimated as being equal to the licensee's allowed security costs attributable to the provision of transmission network services during such period, and the licensee shall comply with the terms of any directions so issued.

3. Subject to paragraphs 4 and 6, the licensee shall in any relevant year be entitled to recover an aggregate amount equal to its allowed security costs attributable to the provision of transmission network services in that year or (insofar as not previously recovered) any previous year, by means of appropriate equitable increases on the charges made by the licensee in the course of the provision of transmission network services.
4. Paragraph 3 shall not apply insofar as such allowed security costs:
  - (a) were otherwise recovered by the licensee; or
  - (b) were taken into account by the Authority in setting a transmission network revenue restriction by means of directions issued under paragraph 2 above.

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5. The licensee shall following the end of each relevant year provide to the Authority details in respect of that relevant year of:
- (a) the amount of the licensee's allowed security costs;
  - (b) the aggregate amounts charged under paragraph 3 on account of the licensee's allowed security costs; and
  - (c) the bases and calculations underlying the increases in charges made by the licensee in its provision of transmission network services together with an explanation of the basis of attribution of allowed security costs to the provision of transmission network services.
6. Where the Authority is satisfied that the licensee has recovered amounts in excess of the allowed security costs attributable to the provision of transmission network services, the Authority may issue directions requiring the licensee to take such steps as may be specified to reimburse customers in receipt of transmission network services for the excess amounts charged to them, and the licensee shall comply with any directions so issued provided that if the excess amounts relate to allowed security costs paid to any authorised electricity operator, the licensee shall not be obliged to make any such reimbursement unless and until it has recovered such costs from the relevant authorised electricity operator.
7. No amounts charged by the licensee under this special condition (whether or not subsequently required to be reimbursed) shall be taken into account for the purpose of applying the provisions of special condition D2 (Restriction on Transmission Network Revenue).
8. In this special condition:
- |                         |   |
|-------------------------|---|
| "allowed security cost" | shall have the meaning ascribed to that term in the Fuel Security Code.   |
| "security period"       | means a period commencing on the date on which any direction issued by the Secretary of State under Section 34(4)(b) of the Act enters effect and terminating on the date (being not earlier than the date such |

direction, as varied, is revoked or expires) as the Authority, after consultation with such persons (including, without limitation, licence holders liable to be principally affected) as he shall consider appropriate, may with the consent of the Secretary of State by notice to all licence holders determine after having regard to the views of such persons.

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**Special Condition D8. Duration of the Transmission Network Revenue Restriction**

1. The transmission network revenue restriction condition (“the revenue restriction”) shall apply so long as this licence continues in force but 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 2 and:
  - (a) the Authority agrees in writing to the disapplication request; or
  - (b) the application of the revenue restriction (in whole or in part) is terminated by notice given by the licensee in accordance with either paragraph 4 or paragraph 5.
  
2. A disapplication request submitted pursuant to this condition shall
  - (a) be in writing addressed to the Authority;
  - (b) specify the revenue restriction (or any part or parts thereof) to which the request relates; and
  - (c) state the date from which the licensee wishes the Authority to agree that the specified charge restriction conditions shall cease to have effect.
  
3. Save where the Authority otherwise agrees, no disapplication following delivery of a disapplication request pursuant to this condition shall have effect earlier than the date which is the later of:
  - (a) the date being not less than 18 months after delivery of the disapplication request; and,
  - (b) 31 March 2012.
  
4. If the Authority has not made a reference to the Competition Commission under Section 12 of the Act relating to the modification of the revenue restriction 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 of the revenue restriction (or any part or parts thereof) as are specified in the disapplication request with effect from the disapplication date or a later date.

5. If the Competition Commission makes a report on a reference made by the Authority relating to the modification of the revenue restriction (or any part or parts thereof) specified in the disapplication request and such report does not include a conclusion that the cessation of such revenue restriction 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 it written notice terminating the application of such revenue restriction (or any part or parts thereof) with effect from the disapplication date or a later date.

**Special Condition D9: Capital Expenditure Incentive and Safety Net**

1. insert purpose

**Part 1: Capital Expenditure Incentive Revenue Adjustment**

2. For the purposes of paragraph 3 of Special Condition D2 (Restriction on Transmission Network Revenue) the capital expenditure incentive revenue adjustment  $CxIncRA_t$  shall in each relevant year  $t$  take the value of zero, except for the relevant year commencing 1 April 2012 in which  $CxIncRA_t$  shall be calculated in accordance with the following formula:

$$CxIncRA_t = \left[ \left( \sum_n (PVF_t \times Dif_t) - \left( 0.25 \times \left( \sum_n PVF_t \times (IncDif_t - LV_t) \right) \right) - RAVADJ \right) \right]$$

where:

$n$  means the relevant year such that  $n=1$  is the relevant year commencing on 1 April 2007 and  $n=5$  is the relevant year commencing on 1 April 2011;

$PVF_t$  means the present value adjustment factor in respect of the relevant year  $t$  and shall take the value set out in the table below:

Relevant year commencing 1 April:	2007	2008	2009	2010	2011
$PVF_t$	1.35408	1.27443	1.19946	1.12891	1.06250

$Dif_t$  means the difference between actual capital expenditure in year  $t$  and base scenario capital expenditure in year  $t$  and shall be calculated in accordance with the following formula:

$$DIF_t = ACx_t - BCx_t$$

where:

$ACx_t$  is the capital expenditure incurred by the licensees in respect of the relevant year t and shall be calculated in accordance with paragraph [x] of this condition;

$BCx_t$  means, subject to Part 2 of this condition, the base capital expenditure allowance in the relevant year t calculated in accordance with paragraph [x] of this condition;

$IncDif_t$  represents the difference between the adjusted efficient capital expenditure and the base capital expenditure allowance in respect of the relevant year t and shall be calculated in accordance with the following formula:

$$IncDif_t = AACx_t - ABCx_t$$

where:

$AACx_t$  is the adjusted efficient capital expenditure incurred by the licensees in respect of the relevant year t and shall be calculated in accordance with paragraph [x] of this condition;

$ABCx_t$  means, the base capital expenditure allowance in the relevant year t calculated in accordance with paragraph [x] of this condition;

[RAVADJ] means the value in 2004/05 prices of the adjustment to the licensee's opening regulatory asset value in relevant year 2012/13 in respect of the difference between actual capital expenditure and the allowance for capital expenditure over relevant years 2007/08 to 2011/12 adjusted for:

- (a) actual volumes of connected generation and demand (in accordance with the term  $LV_t$  as defined in this condition);
- (b) any other factors that the Authority considers relevant including, without limitation, adjustments to  $LV_t$  which are pending (having regard to the state of progress of the works

associated with the connection of further generation capacity) but have not been formally triggered.

$LV_t$  means, in respect of the relevant year  $t$ , the adjustment to the capital expenditure allowance arising due to the outturn values for:

- (a) the volume of zonal generation;
- (b) the volume of zonal surplus (or deficit); or
- (c) the amount of transfer capacity between Scotland and England, differing from the deemed baseline values used for the purposes of deriving the term  $RBCx_t$  set out in paragraph [xx] to this condition and shall be calculated in accordance with paragraph [x] of this condition.

3. For the purposes of paragraph 2,  $ACx_t$  shall be calculated in accordance with the following formula:

$$ACx_t = Cx_t - DCx_t$$

where:

$Cx_t$  means the capital expenditure incurred by the licensee in the relevant year  $t$ , other than capital expenditure incurred by the licensee in the relevant year  $t$  in respect of the transmission investment projects identified in Annex A of special condition D3 (Transmission Investment for Renewable Generation), as reported to the Authority pursuant to paragraph [x] of Standard Condition B15 (xxx);

$DCx_t$  means that amount of capital expenditure incurred by the licensee in respect of the relevant year  $t$  against which the Authority has issued a direction on or before 31 March 2012 that such expenditure is deemed inefficient.

4. For the purposes of paragraph 2,  $BCx_t$  shall be calculated in accordance with the following formula:

$$BCx_t = RBCx_t \times PIT_t$$

where:

$RBCx_t$  means the base capital expenditure allowance for the relevant year t, given in 2004/05 prices, and shall, subject to Part 2 of this condition, take the value given in the table below:

Relevant year commencing 1 April:	2007	2008	2009	2010	2011
$RBCx_t$	[588.6]	[512.4 ]	[568.8 ]	[643.3 ]	[665.7 ]

$PIT_t$  shall take the same meaning as given in paragraph 2 of special condition D4 (Pass Through items);

5. For the purposes of paragraph 2,  $AACx_t$  shall be calculated in accordance with the following formula:

$$AACx_t = Cx_t - ESCx_t - LCx_t - CP_t - TP_t - DCx_t$$

where:

$Cx_t$  means the capital expenditure incurred by the licensee in the relevant year t, other than capital expenditure incurred by the licensee in the relevant year t in respect of the transmission investment projects identified in Annex A of special condition D3 (Transmission Investment for Renewable Generation), as reported to the Authority pursuant to paragraph [x] of Standard Condition B15 (xxx);

$ESCx_t$  means that amount of capital expenditure incurred by the licensee in the relevant year t that falls to be treated as excluded services as set out in special condition D10 (excluded Services) and as reported to the Authority pursuant to paragraph [x] of Standard Condition B16 (xxx);

- $LCx_t$  means that amount of capital expenditure incurred by the licensee in the relevant year  $t$  that falls to be treated as logged up capital expenditure as specified in paragraph [xx] to this condition and as reported to the Authority pursuant to paragraph [x] of Standard Condition B15 (xxx);
- $CP_t$  means that amount of capital expenditure incurred by the licensee in the relevant year  $t$  that falls to be treated as pension cost as reported to the Authority pursuant to paragraph [x] of Standard Condition B15 (xxx);
- $TP_t$  means the capital expenditure efficiently incurred in formula year  $t$  for the purpose of facilitating a connection of a new user where the prospective new user terminates its relevant bilateral agreement prior to commencing use of the GB transmission system.
- $DCx_t$  means that amount of capital expenditure incurred by the licensee in respect of the relevant year  $t$  against which the Authority has issued a direction on or before 31 March 2012 that such expenditure is deemed inefficient.

6. For the purposes of paragraph 2,  $ABCx_t$  shall be calculated in accordance with the following formula:

$$ABCx_t = RABCx_t \times PIT_t$$

where:

- $RABCx_t$  means the base capital expenditure allowance for the relevant year  $t$ , given in 2004/05 prices, and shall, subject to paragraph [x] of this condition, take the value given in the table below:

Relevant year commencing 1 April:	2007	2008	2009	2010	2011
$RABCx_t$	[521.4]	[464.5]	[537.7]	[608.0]	[636.6]

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.

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PIT<sub>t</sub> shall take the same meaning as given in paragraph 2 of special condition D4 (Pass Through items);

7. For the purposes of paragraph 2, LV<sub>t</sub> shall be calculated in accordance with the following formula:

$$LV_t = LVGC_t + LVZS_t + LVZD_t + LVST_t$$

where:

LVGC<sub>t</sub> means the adjustment in the capital expenditure allowance in respect of the relevant year t relative to the base capital expenditure allowance (BCx<sub>t</sub>) to reflect requirements for local reinforcement works associated with the connection of additional generation entry capacity, and shall be calculated in accordance with paragraph 8 of this condition;

LVZS<sub>t</sub> means the adjustment in the capital expenditure allowance in respect of the relevant year t relative to the base capital expenditure allowance (BCx<sub>t</sub>) to reflect the need to accommodate zonal surpluses of generation capacity, and shall be calculated in accordance with paragraph 9 of this condition;

LVZD<sub>t</sub> means the adjustment in the capital expenditure allowance in respect of the relevant year t relative to the base capital expenditure allowance (BCx<sub>t</sub>) to reflect the need to accommodate zonal deficits of generation capacity, and shall be calculated in accordance with paragraph 10 of this condition.

LVST<sub>t</sub> means the adjustment in the capital expenditure allowance in respect of the relevant year t relative to the base capital expenditure allowance (BCx<sub>t</sub>) to reflect the need to accommodate additional transfers from Scotland to England, and shall be calculated in accordance with paragraph 11 of this condition.

8. For the purposes of paragraph 7, LVGC<sub>t</sub> shall be calculated in accordance with the following formula:

$$LVGC_t = \sum_j \left[ (UCAGC_j \times 0.001 \times PIT_t) \times (GC_{j,t} - BGC_{j,t}) \right]$$

where

UCAGC<sub>j</sub> means the unit cost allowance in respect of local reinforcement works associated with the connection of additional generation capacity in zone j and shall take the values specified in Table [5] of Annex [B] to this condition;

PIT<sub>t</sub> shall take the same meaning as given in paragraph 4 of this condition

GC<sub>j,t</sub> means the sum for zone j of all individual relevant generation entry capacities (in MW) for which access charges were levied in the relevant year t excluding individual relevant generation entry capacities which were delivered and subject to access charges at any point in the relevant year commencing 1 April 2006. The relevant generation entry capacity for an individual power station shall be the largest holding or (if greater than the holding) use of entry capacity rights (through any combination of firm access products) held or used by an individual power station for a total period not less than [5 days] during the relevant year t.

BGC<sub>j,t</sub> means the baseline generation entry capacity for zone j in the relevant year t and shall take the values in Table [1] of Annex [B] to this condition.

9. For the purposes of paragraph 7, LVZS<sub>t</sub> shall be calculated in accordance with the following formula:

$$LVZS_t = \sum_j \left[ (UCAZS_j \times 0.001 \times PIT_t) \times \left( \max(ZS_{j,t}, LZS_j) - \max(BZS_{j,t}, LZS_j) \right) \right]$$

where

UCAZS<sub>j</sub> means the unit cost allowance reflecting the need to accommodate zonal surpluses of generation capacity and shall take the values specified in Table [5] of Annex [B] of this condition.;

PIT<sub>t</sub> shall take the same meaning as given in paragraph 4 of this condition;

- $LZS_j$  means the starting zonal surplus for zone  $j$  and shall take the values in Table [2] of Annex [B ] of this condition for all relevant years  $t$ ;
- $BZS_{j,t}$  means the base scenario zonal surplus output in MW for zone  $j$  in the relevant year  $t$  and shall take the values specified in Table [2] of Annex [B] of this condition; and
- $ZS_{j,t}$  means the zonal surplus in MW for zone  $j$  in the relevant year  $t$  and shall be calculated in accordance with the following formula:

$$ZS_{j,t} = ZGen_{j,t} + ZClos_{j,t} - ZDem_{j,t}$$

where:

$ZGen_{j,t}$  means the sum across all users connected in zone  $j$  of all long-term generation entry capacity products in MW for which charges were levied in the relevant year  $t$  including TEC and such other products that imply a user commitment of not less than one year;

$ZClos_{j,t}$  means the sum across all users connected in zone  $j$  of all individual reductions in generation entry capacities in MW for which access charges were paid in the relevant year  $t-1$  but not in the relevant year  $t$ ; and

$ZDem_{j,t}$  means the user demand at national peak in the relevant year  $t$ , which is calculated using the following formula:

$$ZDem_{j,t} = FDem_{j,t} \times \left( \frac{ODem_{j,t-1}}{FDem_{j,t-1}} \right)$$

where

$FDem_{j,t}$  means the sum for zone  $j$  of all Grid Supply Point demand nominations in MW for time of national peak

demand made in relevant year t-1 for relevant year t

$FDem_{j,t-1}$  means the sum for zone j of all Grid Supply Point demand nominations in MW for time of national peak demand made in relevant year t-1 for relevant year t-1; and

$ODem_{j,t-1}$  means the sum for zone j of all Grid Supply Point demands in MW at time of national peak demand in relevant year t-1.

10. For the purposes of paragraph 7,  $LVZD_t$  shall be calculated in accordance with the following formula:

$$LVZD_t = \sum_j \left[ (UCAZD_j \times 0.001 \times PIR_t) \times \left( \max(ZD_{j,t}, LZD_j) - \max(BZD_{j,t}, LZD_j) \right) \right]$$

where

$UCAZD_t$  means the unit capital expenditure cost allowance in 2004/05 prices for the infrastructure required to accommodate the zonal deficit for zone j, and shall take the values specified in Table [5] of Annex B of this condition;

$PIT_t$  shall take the same meaning as given in paragraph 4 of this condition;

$LZD_j$  means the starting zonal deficit in MW for zone j, as specified in [Table 3 of Annex B];

$BZD_{j,t}$  means the base scenario zonal deficit output in MW to be accommodated in zone j in the relevant year t, and shall take the values specified in Table [3] of Annex [B] to this condition; and

$ZD_{j,t}$  means the zonal deficit in MW for zone j which is specified using the following formula:

$$ZD_{j,t} = ZDem_{j,t} - ZGen_{j,t}$$

where:

$ZDem_{j,t}$  shall have the same meaning as given in paragraph 7 of this condition; and

$ZGen_{j,t}$  shall have the same meaning as given in paragraph 7 of this condition.

11. For the purposes of paragraph 7  $LVST_t$  shall be calculated in accordance with the following formula:

$$LVST_t = [(UCAST \times 0.001 \times PIT_t) \times (ST_t - BST_t)]$$

where:

$UCAST$  means the unit capital expenditure cost allowance in 2004/05 prices for reinforcements associated with accommodating higher transfers from Scotland to England, and shall take the value [£308,000] per MW;

$ST_t$  means the delivered long-term output capacity in MW of the network between Scotland and England in relevant year t. Delivery of long-term capacity across this portion of the network shall be assessed on the basis of the availability of secure capacity on the circuits that cross the England – Scotland border and the network upstream and downstream of the border such that power transfers can be sustained for a variety of generation patterns in Scotland and England; and

$BST_t$  means the base scenario output capacity in MW of the network between Scotland and England in the relevant year t, and shall take the values specified in Table [4] of Annex [B] of this condition.

$PIT_t$  shall take the same meaning as given in paragraph 4 of this condition;

12. For the purposes of paragraph 5,  $LCx_t$  shall comprise those costs incurred, and reported to the Authority in accordance with standard condition B15, by the licensee against the following cost categories:

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.

- a. Underground cable tunnels – up to a cap of £60m (in 2004/05 prices);
  - b. Upgrading of operational telecommunication systems resulting from the introduction of BT's 21st Century Networks programme;
- subject to the licensee satisfying the Authority that such costs have been efficiently incurred.
13. For the purposes of this condition, the licensee shall, not later than 31 July in the relevant year commencing 1 April 2008 and each subsequent relevant year t, submit a report to the Authority (in a form approved by the Authority) giving the outturn values of all of the variables stipulated in this condition in respect of the relevant year t-1.

### **Part 2: Capital Expenditure Safety Net**

14. For the purposes of this condition, relevant capital expenditure in respect of the relevant year t shall be calculated as follows:

$$RelCx_t = Cx_t - LCx_t - CP_t - ESCx_t - LV_t$$

15. The licensee shall use reasonable endeavours to estimate relevant capital expenditure in respect of the relevant year t and each subsequent relevant year up to and including the relevant year commencing 1 April 2011.
16. For the purposes of paragraph 17, the relevant capital expenditure allowance ( $RelACx_t$ ) in the relevant year t shall be calculated in accordance with the following formula:

$$RelACx_t = ABCx_t$$

where

$ABCx_t$  shall be calculated as defined in paragraph 6 to this condition.

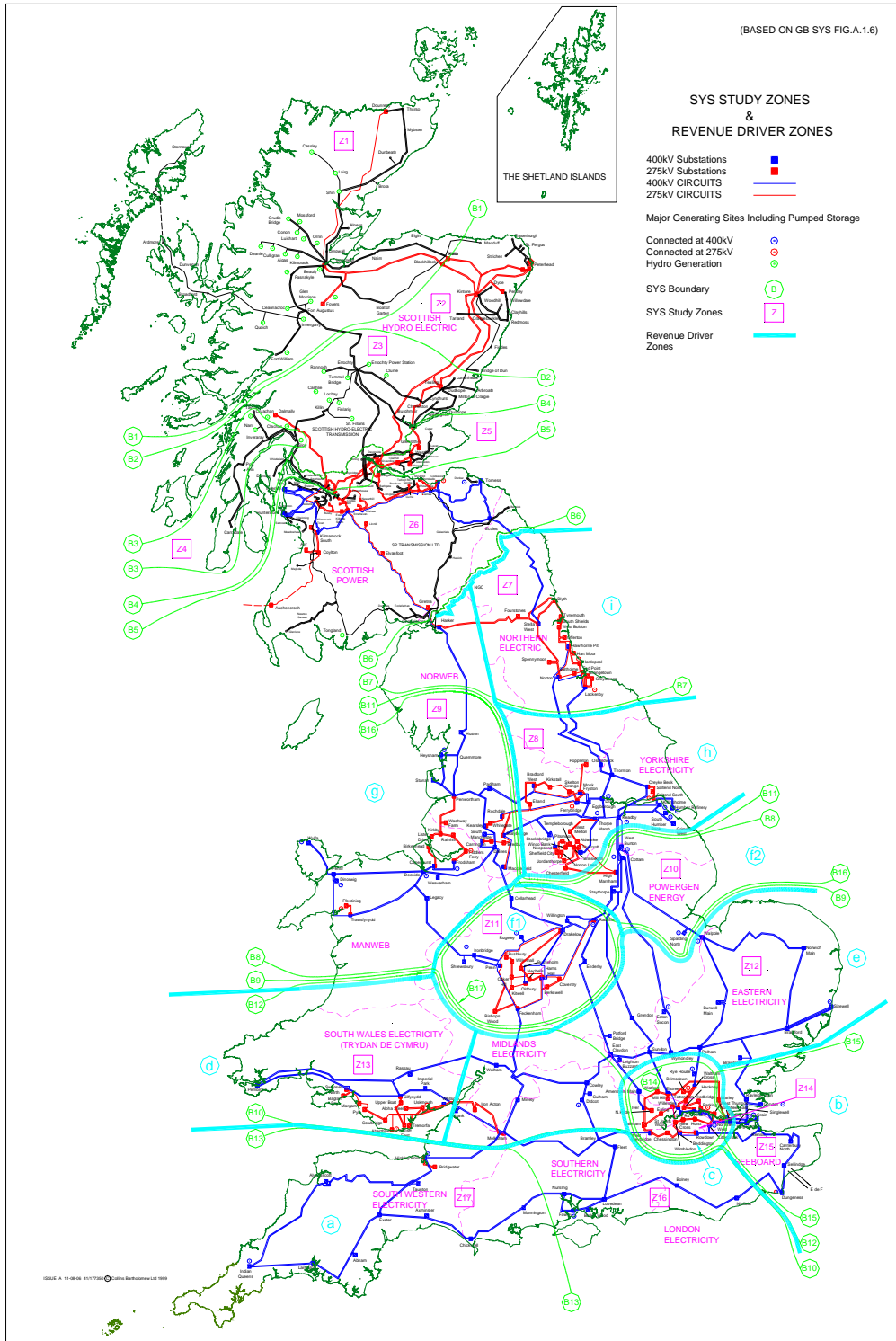
17. If, in respect of the relevant year t or any subsequent relevant year up to and including the relevant year commencing 1 April 2011, the licensee reasonably expects that relevant capital expenditure will be less than  $0.8x(RelACx_t)$  then the Licensee shall furnish to the Authority a statement setting out:

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.

- 
- (a) the amount by which the licensee expects relevant capital expenditure to fall below  $RelACx_t$  in respect of that same relevant year;
    - (b) the factors which, in the licensee's reasonable opinion, has or is likely to result in the shortfall referred to in sub-paragraph (a).
  18. The Authority may, acting reasonably, request any additional information in relation to paragraphs 14 to 17 of this condition that it considers is necessary to exercise its duties and functions under the Act. Such a request shall be made in writing to the licensee and specify the date by which information shall be provided.
  19. Where the Authority issues a request pursuant to paragraph 18, the licensee shall, unless the Authority agrees otherwise, provide such information that has been requested by the Authority by the date specified in the request.
  20. The Authority may, having considered the information provided by the licensee pursuant to this condition, by notice to the licensee set out that it proposes to reduce the value of base Transmission Network Revenue set out in paragraph 3 of special condition D2 (Restriction on Transmission Network Revenue). Such notice shall specify:
    - (a) the amount by which the Authority proposes to reduce base transmission revenue;
    - (b) the date on which the Authority proposes that the reduction in base transmission revenue would take effect;
    - (c) the reasons why the Authority considers that the proposed reduction is appropriate;
    - (d) the date, being of no less than 28 days from the date of the notice, by which the Authority invites representations from the Licensee; and
    - (e) the date by which the Authority intends to give effect to such proposed amendments using its powers pursuant to section 11 of the Act.
  21. The Authority shall have regard to any representations made by the Licensee in response to the notice referred to in paragraph 20 before formally proposing the reduction to the value of base transmission revenue in paragraph 3 of special

condition D2 (Restriction on Transmission Network Revenue) referred to in the notice pursuant to section 11 of the Act.

**Annex A to Special condition D9: Definition of zones**



Note: Consolidated conditions are not formal Public Register documents and should not be relied on.

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**Annex B to Special Condition D9: Parameters****Table 1: Values for  $BGC_{jt}$  (in MW)**

	<b><math>BGC_{jt}</math> in formula year commencing 1 April:</b>				
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
South and South West	0	850	850	1250	1250
Thames Estuary	0	0	200	1640	1840
London	0	0	0	0	0
South Wales	0	0	0	0	0
E and Home Counties	0	0	0	0	0
West Midlands	0	0	0	0	0
East Midlands	0	0	0	0	0
NW and North Wales	52	94	94	94	344
Yorks and Lincs	0	0	0	300	540
North East	0	0	0	0	0

**Table 2: Values for  $LZS_j$  and  $BZS_{jt}$  (in MW)**

	<b><math>LZS_j</math></b>	<b><math>BZS_{jt}</math> in formula year commencing 1 April:</b>				
		<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
South and South West	-4654	-4735	-3979	-4045	-3687	-3680
Thames Estuary	6,938	6878	6165	6284	7682	7838
London	-6,808	-6950	-7109	-7230	-7314	-7412
South Wales	5711	2096	2112	1628	1622	1614
E and Home Counties	797	-709	-818	-1389	-1408	-1462
West Midlands	-3408	-3466	-3536	-3580	-3596	-3624
East Midlands	6431	4725	4714	4708	4703	4703
NW and North Wales	2366	2373	2385	2427	2455	1715
Yorks and Lincs	7679	7672	7655	7658	7980	8236
North East	482	479	505	505	515	525

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.

**Table 3: Values for  $LZD_j$  and  $BZD_{jt}$  (in MW)**

	$LZD_j$	<b><math>BZD_{jt}</math> in formula year commencing 1 April:</b>				
		<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
South and South West	4654	4735	3979	4045	3687	3680
Thames Estuary	-6,938	-6228	-6138	-6284	-7682	-6762
London	6,808	6950	7109	7230	7314	7412
South Wales	-4111	-2096	-1642	-1628	-1622	-1614
E and Home Counties	-797	709	1314	1389	1408	1462
West Midlands	3408	3466	3536	3580	3596	3624
East Midlands	-6431	-4725	-4714	-4708	-4703	-4703
NW and North Wales	-2366	-2373	-2385	-2427	-1475	-1715
Yorks and Lincs	-7679	-7672	-7655	-7658	-7980	-8236
North East	-482	-479	-505	-505	-515	-525

**Table 4: Values for  $BST_t$  (in MW)**

	<b>Formula year commencing 1 April:</b>				
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b><math>BST_t</math></b>	2200	2200	2200	2800	3200

**Table 5: Value for  $UCAGC_j$ ,  $UCAZS_j$  and  $UCAZD_j$  (all in £000 per MW, 2004/05 prices)**

	<b><math>UCAGC_j</math></b>	<b><math>UCAZS_j</math></b>	<b><math>UCAZD_j</math></b>
South and South West	17.5	0.0	23.3
Thames Estuary	17.5	70.0	0.0
London	70.0	0.0	291.6
South Wales	17.5	29.2	23.3
E and Home Counties	11.7	75.8	17.5
West Midlands	5.8	0.0	46.7
East Midlands	5.8	64.1	11.7
NW and North Wales	35.0	52.5	0.0
Yorks and Lincs	17.5	70.0	0.0
North East	17.5	58.3	0.0

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.

**Special Condition D10. Excluded Services**

1. 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 2 of this special condition; and
  - (b) may (subject to paragraph 6) be determined by the licensee as falling under one of the principles set out in paragraphs 3 to 5 of this special condition.
  
2. 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 standard condition C4 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.

3. The whole or an appropriate proportion (as the case may be) of the charges of the type described in paragraph 4 of standard condition C6 and borne by any person as connection charges in respect of connections made to a licensee's transmission system after the grant of the licence to the relevant transmission licensee may be treated as excluded services.
4. There may be treated as 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.
5. 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.
6. Where the Authority is satisfied that in light of the principles set out in paragraphs 2 to 5 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 [xx] of standard condition B16 (xx) prior to issue of such directions related, unless such statement or the accompanying report or certificate referred to in paragraph [xx] of such standard condition or any earlier such statement, report or certificate was incorrect or misleading in any material respect) as may be specified in the directions.

**Special Condition E.** Not used.

**Special Condition F.** Not used.

**Special Condition G. Prohibition on engaging in preferential or discriminatory behaviour**

1. The licensee shall not, in meeting its obligations under this licence, unduly discriminate as between or unduly prefer any other transmission licensee or transmission licensees or unduly prefer itself over any other transmission licensee or transmission licensees.
2. When determining whether to use or refrain from using services provided by another transmission licensee pursuant to that other transmission licensee's transmission licence, the licensee shall apply the same or equivalent factors (and shall, in applying such factors, take into account any information available to it) that it applies when considering whether to undertake (or to refrain from undertaking) equivalent activities in its transmission area.
3. On notification by the Authority, the licensee shall keep and maintain such records concerning its compliance with this condition as are in the opinion of the Authority sufficient to enable the Authority to assess whether the licensee is complying with this condition and as are specified in any such notification, and the licensee shall furnish to the Authority such records (or such of these as the Authority may require) in such manner and at such times as the Authority may require.

**Special Condition H. Amended standard conditions**

1. Standard condition A1 (Definitions and interpretation) shall be amended by the addition of the following text between the definitions of "relinquishment of operational control" and "Retail Price Index":

"remote transmission assets" means any electric lines, electrical plant or meters in England and Wales owned by the licensee which:

- (a) are embedded in a distribution system of an authorised electricity operator within the transmission area of the licensee and are not directly connected by lines or plant owned by the licensee to a sub-station owned by the licensee and
- (b) are, by agreement between the licensee and such authorised electricity operator, operated under the direction and control of such authorised electricity operator.

2. Standard condition A1 (Definitions and interpretation) shall be amended as follows:

- (a) by the addition of the following text after "and includes" in the definition of "distribution system": "remote transmission assets (owned by the licensee within England and Wales) operated by such distributor and any";

- 
- (b) by the addition of the following text at the end of the definition of "GB transmission system": "but shall not include any remote transmission assets";
  - (c) not used;
  - (d) in the definition of "transmission business":
    - (aa) not used;
    - (bb) not used;
    - (cc) the words "or commercial management" shall be inserted after "maintenance";
    - (dd) the words "the transmission owner activity," shall be inserted before "the balancing services activity"; and
    - (ee) not used.
3. Standard condition C1 (Interpretation of Section C) shall be amended by the addition of the following text between the definition of "transmission network services" and the definition of "use of system":
- |                               |       |  |
|-------------------------------|-------|--|
| "transmission owner activity" | means |  |
|                               |       | <ul style="list-style-type: none"> <li>(i) the activity of the licensee or any affiliate or related undertaking relating to the medium to long term planning, development, construction, maintenance and commercial management of the licensee's transmission system or the GB transmission system which is remunerated under special</li> </ul> |

condition D2 (Restriction on  
Transmission Network  
Revenue) , and

(ii) excluded services.

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**Special Condition I. Restriction on use of information deriving from the EnMo business**

1. The licensee shall procure that each ultimate holding company of the licensee which is also an ultimate holding company of EnMo (a "relevant ultimate holding company") shall give an undertaking in the form described in paragraph 5.
2. Without prejudice to the licensee's obligation under paragraph 1, any breach of the undertaking given pursuant to paragraph 1 shall be a breach by the licensee of the licence.
3. Any information, held by EnMo or any subsidiary or holding company of EnMo, or by any employee, agent, adviser, consultant, contractor, director or officer of EnMo or of any subsidiary or holding company of EnMo (each such legal or natural person being called an "Enmo source"), relating to volumes or prices of gas, electricity and related products or services, traded or to be traded in the course of EnMo business or relating to any of the parties to any such trade in relation thereto shall be confidential information ("EnMo confidential information").
4. Notwithstanding paragraph 3, the following information shall not fall within the definition of EnMo confidential information for the purpose of this condition:-
  - (i) information which is in the public domain, other than through breach of the undertaking given pursuant to paragraph 1;
  - (ii) information solely in relation to trades by or on behalf of the licensee through the EnMo business (to the extent the same is properly disclosed to the licensee in the ordinary course of the EnMo business in compliance with all applicable laws, regulations and contracts);
  - (iii) information which is disclosed in accordance with the terms of any consent given by the Authority or by the person entitled to disclose it; or
  - (iv) information which EnMo is contractually obliged to provide to Transco plc pursuant to the Network Code or a contract entitled "Within Day Gas Market: Market Operator Appointment Contract dated 1 September 1999".

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5. The licensee shall procure from each relevant ultimate holding company a legally enforceable undertaking in favour of the licensee that the relevant ultimate holding company shall use its best endeavours to ensure that no EnMo confidential information shall be disclosed to or otherwise howsoever come into the possession of the licensee whether directly or indirectly from an EnMo source. Such undertaking shall be obtained from each relevant ultimate holding company within seven (7) days of that company becoming a relevant ultimate holding company and shall remain in force so long as it remains a relevant ultimate holding company.
6. The licensee shall:
- (a) deliver to the Authority evidence (including a copy of the undertaking) that the licensee has complied with the obligation to procure the undertaking pursuant to this condition;
  - (b) inform the Authority immediately in writing if the directors of the licensee become aware that any such undertaking has ceased to be legally enforceable or that its terms have been breached or that there has been a change in identity of a relevant ultimate holding company; and
  - (c) comply with any direction from the Authority to enforce any such undertaking.
7. In the event that any EnMo confidential information comes into the possession of the licensee, the licensee shall ensure that such information shall be treated as confidential, and shall not be used in any respect for the purpose of or in connection with the management or operation of its transmission business.
8. In this condition:
- |                 |   |
|-----------------|---|
| "EnMo"          | means EnMo Limited, a company incorporated in England and Wales under the Companies Act 1985 (registered number 3751681) and having its registered office at 15 Marylebone Road, London, NW1 5JD. |
| "EnMo business" | means any business carried on by EnMo   |

	including, without limitation, the operation of the On-the-Day Commodity Market in gas operated by EnMo.
"information"	shall include, without limitation, any documents, accounts, estimates, returns, records or reports and data in written, verbal or electronic format and information in any form or medium whatsoever.
"Network Code"	has the meaning given in standard condition 1 of the gas transporter licence held by Transco plc.
"ultimate holding company"	shall mean any company or body corporate which is a holding company and is not itself a subsidiary of another company or body corporate.

**Special Condition J. NETA implementation**

1. The licensee shall comply with the programme implementation scheme established in accordance with paragraph 2, as modified from time to time in accordance with paragraph 4.
2. The programme implementation scheme shall be a scheme designated by the Secretary of State setting out the steps, including without limitation steps as to the matters referred to in paragraph 3, to be taken (or procured) by the licensee (and/or by authorised electricity operators) which are, in the Secretary of State's opinion, appropriate in order to give full and timely effect to:
  - (a) any modifications made to this licence and to the licences of authorised electricity operators by the Secretary of State pursuant to the power vested in him under section 15A of the Act;
  - (b) any conditions imposed by any exemption from the requirement to hold any such licence; and
  - (c) the matters envisaged by such modifications and conditions.
3. The programme implementation scheme may include provisions, *inter alia*,
  - (a) to secure or facilitate the amendment of any of the core industry documents;
  - (b) to secure that any systems, contracts, persons or other resources employed in the implementation of the Pooling and Settlement Agreement may be employed in the implementation of the BSC;
  - (c) for the giving of indemnities against liabilities to which parties to the Pooling and Settlement Agreement may be exposed;
  - (d) for securing the co-ordinated and effective commencement of implementation of and of operations under the BSC, including the testing, trialling and start-up of the systems, processes and procedures employed in

- such implementation and employed by authorised electricity operators and others in connection with such operations;
- (e) for co-ordinating the administration and implementation of the BSC and the administration of the Pooling and Settlement Agreement; and for dealing with run-off;
  - (f) for the licensee to refer to the Authority for determination, whether of its own motion or as provided in the programme implementation scheme, disputes, as to matters covered by the scheme, between persons who are required (by conditions of their licences or exemptions) or who have agreed to comply with the scheme or any part of it; and
  - (g) for the Authority, in the circumstances set out in the scheme, to require that consideration be given to the making of a proposal to modify the BSC and, if so, to require the making of such proposal in the manner set out in the scheme, such power to be exercisable at any time within the period of 12 months after the effective time.
4. (a) The Secretary of State may at any time direct in accordance with the provisions of the programme implementation scheme, that the programme implementation scheme, other than provisions pursuant to paragraphs 3(g) and 7(a), be modified in the manner set out in such direction, in order to give (or continue to give) full and timely effect to the matters described in paragraph 2.
- (b) The Secretary of State shall serve a copy of any such direction on the licensee, and thereupon the licensee shall comply with the scheme as modified by the direction.
5. If there is any conflict between the requirements contained in the programme implementation scheme pursuant to paragraph 3(a) and/or imposed on the licensee by paragraphs 1 and 4, and those imposed on the licensee by any other condition, the provisions of this condition shall prevail.

6. Without prejudice to paragraph 1, the licensee shall use all reasonable endeavours to do such things as may be requisite and necessary in order to give full and timely effect to the modifications made to this licence by the Secretary of State pursuant to the powers vested in him under section 15A of the Act (and to give full and timely effect to the matters envisaged by such modifications).
7. (a) The Authority may, in the circumstances specified in the programme implementation scheme, direct the licensee to modify the BSC in the manner indicated in the direction.
- (b) The Authority shall not make any such direction after the effective time.
8. For the purposes of this condition:

"run-off" means the determination and settlement (including by way of reconciliation) of amounts due arising under or in connection with the Pooling and Settlement Agreement in relation to settlement periods up to and including the settlement period immediately prior to the effective time (including the resolution of disputes in respect thereof).

**Special Condition K. Requests for transit**

## 1. In this condition:

"entity" means any of the entities referred to in Article 3.1 of the Directive of the Council of the European Communities, dated 29th October 1990, (No. 90/547/EEC) on the transit of electricity through transmission grids ("the Directive");

"grid" means any high-voltage electricity transmission grid for the time being listed in the Annex to the Directive;

"Member State" means a Member State of the European Communities;

"transit" means a transaction for the transport of electricity between grids where:

- (a) the grid of origin or final destination is situated in a Member State; and
- (b) the transport involves –
  - (i) the crossing of at least one frontier between Member States; and
  - (ii) the use of the GB transmission system and at least two other grids.

## 2. Any entity applying in connection with transit for an agreement for use of system shall be treated for the purposes of standard conditions C7 (Prohibition on discrimination against users), C8 (Requirement to offer terms) and C9 (Functions of the Authority) as an authorised electricity operator.

## 3. The licensee shall, after receiving in connection with transit for a minimum duration of one year an application by any entity for an agreement for -

- (a) use of system; or
- (b) connection to the GB transmission system or modification to an existing connection,

notify the Secretary of State, the Authority and the Commission of the European Communities without delay of the matters set out in paragraph 4 below.

## 4. The matters of which notification must be given are:

- (a) the application;
  - (b) if an agreement has not been concluded within 12 months of the date of receipt of the application, the reasons for the failure to conclude it; and
  - (c) the conclusion of the agreement, whether it is concluded before or after the expiry of the period mentioned in sub-paragraph (b) above.
5. If, in relation to an application for transit by any entity, the Authority has been requested to exercise its powers under standard condition C9 (Functions of the Authority) or special condition F (Functions of the Authority), the Authority may delay the exercise of its said powers until the terms have been considered by the body set up under Article 3.4 of the Directive and the Authority may give such weight to the opinion (if any) of that body as it thinks fit in exercising its said powers.

**Special Condition L. Change co-ordination for the Utilities Act 2000**

1. The licensee shall take all reasonable measures to secure and implement, and shall not take any steps to prevent or unduly delay, such changes to the industry framework documents as are necessary or expedient to give full and timely effect to the provisions of the Utilities Act 2000.
2. In complying with paragraph 1, the licensee shall act in the case of each industry framework document consistently with the change procedures currently applicable to that document, except where to do so would be inconsistent with any provision of the Utilities Act 2000, in which event that provision shall take precedence.
3. For the purposes of this condition, "industry framework document" means, subject to paragraph 4, any of the following documents to which the licensee is a party, or in relation to which it holds rights in respect of amendment or termination, together with any documents which are supplemental or ancillary thereto:
  - (a) the Pooling and Settlement Agreement;
  - (b) the Balancing and Settlement Code;
  - (c) the Master Connection and Use of System Agreement or the Connection and Use of System Code;
  - (d) the Settlement Agreement for Scotland;
  - (e) the Master Registration Agreement;
  - (f) the Data Transfer Services Agreement;
  - (g) the Radio Teleswitch Agreement;
  - (h) any Grid Code;
  - (i) any Distribution Code;

- (j) the Trading Code;
  - (k) the Fuel Security Code;
  - (l) any agreement for use of an interconnector or Scottish interconnection;  
and
  - (m) any agreement for the provision of distribution use of system, meter provision services, meter maintenance services, data retrieval services, data processing services, data aggregation services, or prepayment meter services.
4. Where the Authority considers that the list of industry framework documents set out in paragraph 3 should be modified for the purposes of this condition, the licensee shall discuss any proposed modification (including addition) to the list in good faith and use all reasonable endeavours to agree such modification with the Authority.
5. This condition shall cease to have effect on 30 June 2002 or such earlier date as the Authority may specify in a direction given, for the purposes of this condition generally.

**Special Condition M. Restriction on the use of certain information**

1. This condition applies where the licensee has received an application for connection pursuant to paragraph 1(b) of standard condition C8 (Requirement to offer terms) from any person (the "applicant"), in relation to a possible connection to the GB transmission system in an area which is outside the licensee's transmission area.
2. Where this condition applies, any information which the licensee receives from another transmission licensee relating to the design or construction of that possible connection or relating to financial matters associated with that possible connection or any information which is derived from such information (but in each case excluding any such information which the licensee has properly received or will properly receive through another means) shall, for the purposes of this condition and special condition N (Appointment of a compliance officer) and until such time as the licensee accepts the TO offer relating to that possible connection or the applicant accepts an alternative offer made by the licensee and there are no outstanding alternative offers in respect of that TO offer, be confidential information.
3. Subject to paragraph 4, the licensee shall ensure that any confidential information is not disclosed to or used by those of its employees, agents, advisers, consultants or contractors who are responsible for, or are otherwise involved in any way in, the preparation of any alternative offer for or the making of any alternative offer to the applicant. The licensee shall further ensure that such of its employees, agents, advisers, consultants or contractors who are preparing an offer for the applicant dealing with such confidential information shall not have access to any information derived from or relating to any alternative offer or alternative offers being prepared for or which have been made to the applicant in relation to a possible connection or possible connections to any part of the GB transmission system which falls within the licensee's transmission area.
4. Paragraph 3 shall not (or no longer) apply if and to the extent that:

- (a) the employees, agents, advisers, consultants or contractors who are responsible for, or are otherwise involved in, the preparation of an alternative offer are required to have access to the confidential information (or any part thereof) by virtue of any requirement of law;
- (b) the employees, agents, advisers, consultants or contractors who are dealing with the confidential information (or any part thereof) are required to have access to any alternative offer (or any part thereof) by virtue of any requirement of law;
- (c) the relevant transmission licensee has notified (or otherwise agreed with) the licensee that the information referred to in paragraph 2 (or any part thereof) need not be treated as confidential for the purposes of this condition or special condition N (Appointment of a compliance officer);
- (d) any employees, agents, advisers, consultants or contractors are required to have access to both the confidential information (or any part thereof) and any alternative offer solely in connection with the financial sanctioning or final approval of an offer to be made to the applicant in accordance with standard condition C8 (Requirement to offer terms), provided that where following such access the licensee (or any employee, agent, adviser, consultant or contractor of the licensee on its behalf) amends any aspect of any offer to the applicant, such modification shall be notified to the Compliance Officer appointed in accordance with special condition N (Appointment of a compliance officer); or
- (e) any employees, agents, advisers, consultants or contractors are required to have access to both the confidential information (or any part thereof) and any alternative offer (or part thereof) solely in connection with assessing transmission system outage requirements and developing outage plans to facilitate connection to the GB transmission system,

provided that effective arrangements are maintained in place at all times for ensuring that no further disclosure or use of any information supplied or obtained pursuant to this paragraph is made.

5. This condition applies without prejudice to any other confidentiality arrangements that may apply to the information referred to in paragraph 2.

6. In this condition

“alternative offer”

an offer being prepared or made pursuant to paragraph 1(b) of standard condition C8 (Requirement to offer terms) shall be an alternative offer where:

- (a) it relates to a connection to the GB transmission system at a location which is within the licensee’s transmission area; and
- (b) the applicant (whether by one or more applications):
  - (i) has applied to connect to the GB transmission system at more than one location, at least one of which is located outside the licensee’s transmission area; or
  - (ii) is willing to consider a connection to the GB transmission system at more than one location, at least one of which locations is outside the licensee’s transmission area; and
- (c) the licensee knows or it is reasonable for the licensee to assume that the applicant does not intend to connect

to the GB transmission system at all the locations at which the applicant has requested an offer for connection and that it intends to choose to connect at one or more locations on the basis of the offers it receives,

but shall exclude any offer being prepared for or which has been made to the applicant which the licensee knows or it is reasonable for the licensee to assume the applicant does not consider is an alternative to any other offer which is being prepared for or which has been made to the applicant.

"applicant"

has the meaning given to that term in paragraph 1.

"confidential information"

has the meaning given to that term in paragraph 2.

**Special condition N. Appointment of compliance officer**

1. The licensee shall prepare a statement in a form approved by the Authority describing the means by which the licensee shall ensure that special condition M (Restriction on use of certain information) is complied with.
2. The licensee may periodically revise the description set out in and, with the approval of the Authority, alter the form of the statement prepared in accordance with paragraph 1 and shall, at least once every year during which this licence is in force, review such statement in order that the description set out therein shall continue to be accurate in all material respects.
3. The licensee shall send a copy of the statement prepared in accordance with paragraph 1, and of each revision of such statement in accordance with paragraph 2, to the Authority and shall publish a copy of such statement and each such revision in such a way as to ensure that such statement and each such revision is likely to be brought to the attention of any person who may be affected by it or by each of them.
4. The licensee shall, following consultation with the Authority, appoint a competent person (who shall be known as the "Compliance Officer") for the purpose of facilitating compliance by the licensee with this condition and with special condition M (Restriction on use of certain information).
5. The licensee shall at all times engage the services of the Compliance Officer for the performance of such duties and tasks as the licensee considers it appropriate to assign to him for the purposes specified at paragraph 4, which duties and tasks shall include those set out at paragraph 8.
6. The licensee shall procure that the Compliance Officer:
  - (a) is provided with such staff, premises, equipment, facilities and other resources; and
  - (b) has such access to its premises, systems, information and documentation

as, in each case, he might reasonably expect to require for the fulfilment of the duties and tasks assigned to him.

7. The licensee shall make available to the Compliance Officer a copy of any complaint or representation received by it from any person in relation to any of the means adopted by the licensee in accordance with the statement referred to at paragraph 1.
8. The duties and tasks assigned to the Compliance Officer shall include:
  - (a) providing relevant advice and information to the licensee for the purpose of ensuring its compliance with the relevant duties;
  - (b) monitoring the effectiveness of the practices, procedures and systems adopted by the licensee in accordance with the statement referred to at paragraph 1;
  - (c) investigating any complaint or representation made available to him in accordance with paragraph 7;
  - (d) investigating any notification made to it under paragraph 4(d) of special condition M (Restriction on the use of certain information) to ensure compliance with special condition G (Prohibition on engaging in preferential or discriminatory behaviour);
  - (e) recommending and advising upon the remedial action which any investigation under paragraph (c) or (d) has demonstrated to be necessary or desirable;
  - (f) providing relevant advice and information to the licensee for the purpose of ensuring its effective implementation of:
    - (i) the practices, procedures and systems adopted in accordance with the statement referred to at paragraph 1; and
    - (ii) any remedial action recommended in accordance with sub-paragraph (e); and

- (g) reporting annually to the directors of the licensee - in respect of the year ending 31 December 2005 and of each subsequent year - as to his activities during the period covered by the report, including the fulfilment of the other duties and tasks assigned to him by the licensee.
9. As soon as is reasonably practicable following each annual report of the Compliance Officer, the licensee shall produce a report:
- (a) as to its compliance during the relevant year with the relevant duties; and
  - (b) as to its implementation of the practices, procedures and systems adopted in accordance with the statement referred to at paragraph 1.
10. The report produced in accordance with paragraph 9 shall in particular:
- (a) detail the activities of the Compliance Officer during the relevant year;
  - (b) refer to such other matters as are or may be appropriate in relation to the implementation of the practices, procedures and systems adopted in accordance with the statement referred to at paragraph 1; and
  - (c) set out the details of any investigations conducted by the Compliance Officer, including:
    - (i) the number, type and source of the notifications, complaints or representations on which such investigations were based;
    - (ii) the outcome of such investigations; and
    - (iii) any remedial action taken by the licensee following such investigations.
11. The licensee shall submit to the Authority a copy of the report produced in accordance with paragraph 9, and shall give or send a copy of the report to any person who requests such a copy.

12. In this condition:

"confidential information" shall for the purposes of this condition have the same meaning as in special condition M (Restriction on the use of certain information).

"relevant duties" means the obligations set out in special condition M (Restriction on the use of certain information).

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**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:

“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.
“outage change”	has the meaning given in Special Condition AA5A, Part 2(iv)(TO incentives), paragraph 21A.
“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.

2. In this special condition and in special conditions AA5A to AA5H inclusive and Schedule A and Schedule 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 AA5 inclusive and Schedule A and Schedule B, and defined for the purposes of that 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 Schedule A and Schedule B, any cost, charge, payment or amount may either be positive or negative.

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***Special Condition AA5A: Revised Restrictions on Revenue***

**Part 1**

1. Not Used
2. Not Used
3. Not Used
4. Not Used.

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

5. The licensee shall use its best endeavours to ensure that in the relevant period  $t$  the revenue derived from and associated with procuring and using balancing services (being the external costs of the balancing services activity) shall not exceed an amount calculated in accordance with the following formula:

$$BXext_t = CSOBM_t + BSCC_t + ET_t - OM_t + IncPayExt_t$$

where:

$BXext_t$  which represents the maximum allowed revenue derived in relevant period  $t$  from and associated with procuring and using balancing services, is the aggregate of the following components:

$CSOBM_t$  which represents the cost to the licensee of bids and offers in the balancing mechanism accepted by the licensee in relevant period  $t$  less the total non-delivery charge for that period, is the sum across relevant period  $t$  of the values of  $CSOBM_j$  (being the daily system operator BM cashflow as defined

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in Table X-2 of Section X of the BSC in force immediately prior to 1 April 2001);

$BSCC_t$  means the costs to the licensee of contracts for the availability or use of balancing services during the relevant period  $t$ , excluding costs within  $CSOBM_t$  but including charges made by the licensee for the provision of balancing services to itself in the relevant period  $t$ ;

$ET_t$  means the amount of any adjustment to be made during the relevant period  $t$  in respect of a previous relevant year as provided in paragraph 6;

$OM_t$  means an amount representing the revenue from the provision of balancing services to others during relevant period  $t$ , calculated in accordance with paragraph 7;

$IncPayExt_t$  means an incentive payment for relevant period  $t$  calculated in accordance with paragraph 8.

5A. For the purposes of Part 2 (i) paragraphs 7(b) and 9 of this special condition, where the BETTA go-live date is a date later than 1 April 2005, the term “GB transmission system” shall, for the period from and including 1 April 2005 up to the BETTA go-live date only, be replaced with the term “licensee’s transmission system”.

## 6. Balancing services activity adjustments

For the purposes of paragraph 5, the term  $ET_t$  which relates to prior year adjustments in respect of the relevant period  $t$  shall mean:

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- (a) the costs, whether positive or negative, to the licensee of
- bids and offers in the balancing mechanism accepted by the licensee in any relevant year before relevant period  $t$  less the total non-delivery charge for the period; and
  - contracts for the availability or use of balancing services during any relevant year before relevant period  $t$ , excluding costs within  $CSOBM_t$  for any relevant year, but including charges made by the licensee for the provision of balancing services to itself in any relevant year before relevant period  $t$

in each case after deducting such costs to the extent that they have been taken into account in any relevant year in computing the terms  $CSOBM_t$  or  $BSCC_t$ ; and

- (b) any amount within the term  $ET_t$  as defined in this licence in the form it was in on 1 April 2000 whether as then defined or as now defined.

#### 7. Provision of balancing services to others

For the purpose of paragraph 5,  $OM_t$  (the amount representing the revenue from the provision of balancing services to others) shall be the sum of:

- (a) the total amount (exclusive of interest and value added tax attributable thereto) recovered by the licensee in respect of the relevant period  $t$  under any agreements entered into between an electricity supplier (being the holder of a supply licence granted or treated as granted under Section 6(1)(d) of the Act) or network operator (as defined in the grid code) and the licensee pursuant to which the costs of operation or non-operation of generation sets which are required to support the stability of a user system (as defined in the grid code) are charged to such electricity supplier (as defined above) or network operator (as defined in the grid code); and

- (b) the total costs (exclusive of interest and value added tax attributable thereto) incurred by the licensee in respect of the relevant period  $t$  which arise by reason of the operation or non-operation of generation sets and which result directly or indirectly from works associated with the GB transmission system or works thereon being carried out, rescheduled or cancelled by reason of any agreement with, or request of, any third party other than an electricity supplier (as defined in paragraph 7 (a) of this special condition) or network operator (as defined in the grid code).

8. Determination of incentive payments on external costs

For the purposes of paragraph 5, the term  $IncPayExt_t$  shall be derived from the following formula:

$$IncPayExt_t = [SF_t(MT_t - IBC_t) + CB_t]$$

where:

$SF_t$  which is a balancing services activity sharing factor in respect of relevant period  $t$ , has the value specified either against the value of  $IBC_t$  for the relevant period  $t$  in the column headed  $SF_t$  in the table in paragraph B1 (a) of Part B of Schedule A or in paragraph B1 (b) of Part B of Schedule A.

$MT_t$  which is a target for balancing services activity incentivised external costs in respect of relevant period  $t$ , has the value specified either against the value  $IBC_t$  for relevant period  $t$  in the column headed  $MT_t$  in the table in paragraph B1 (a) of Part B of Schedule A or in paragraph B1 (b) of Part B of Schedule A.

$IBC_t$  which is the cost of balancing services on which the licensee is incentivised during the relevant period  $t$ , is calculated in accordance with the formula given in paragraph 9.

$CB_t$  which is a balancing services sharing factor offset in respect of the relevant period  $t$ , has the value either specified against the value of  $IBC_t$  for the relevant period  $t$  in the column headed  $CB_t$  in the table in paragraph B1 (a) of Part B of Schedule A or in paragraph B1 (b) of that Part.

9. For the purposes of paragraph 8, the term  $IBC_t$  in respect of relevant period  $t$  shall be calculated in accordance with the following formula:

$$IBC_t = CSOBM_t + BSCC_t + \sum_{jt} \left( [TL_j - TLT_j] * [TLRP_j] \right) + \sum_{jt} \left( TQEI_j * [NIRP_j] \right) - RT_t - OM_t$$

where:

$j$  in all cases shall mean a settlement period (being a half an hour) as defined in the BSC.

$\sum_{jt} \left( [TL_j - TLT_j] * [TLRP_j] \right)$  is the volume of transmission losses ( $TL_j$ ) minus the target volume of transmission losses ( $TLT_j$ ) multiplied by the transmission losses reference price ( $TLRP_j$ ) for each settlement period, summed across all settlement periods in the relevant period  $t$ .

$\sum_{jt} \left( TQEI_j * [NIRP_j] \right)$  the total net imbalance volume ( $TQEI_j$ ) as defined in the BSC in force immediately prior to 1 April 2001 multiplied by the net imbalance volume reference price ( $NIRP_j$ ) for each settlement period, summed across all settlement periods in the relevant period  $t$ .

$TL_j$  which is the volume of transmission losses, is given by the sum of BM unit metered volumes (as from time to time defined in the BSC) during the settlement period  $j$  for all BM units (as from time to time defined

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	in the BSC), being the difference between the quantities of electricity delivered to the GB transmission system and the quantity taken from the GB transmission system during that settlement period.
TLT <sub>j</sub>	which is the target volume of transmission losses, has the value specified for each settlement period set out in paragraph B3 of Part B of Schedule A.
TLRP <sub>j</sub>	which is the transmission losses reference price, has the value specified for each settlement period set out in paragraph B3 of Part B of Schedule A.
NIRP <sub>j</sub>	which is the net imbalance volume reference price for each settlement period j, has the values set out in paragraph B4 in Part B Schedule A.
RT <sub>t</sub>	means the amount of any allowed income adjustments given by paragraph 12 (b) in respect of relevant period t.

10. Income adjusting events under the balancing services activity revenue restriction on external costs

- (a) An income adjusting event may arise from any of the following:
- (i) an event or circumstance constituting force majeure under the BSC;
  - (ii) an event or circumstance constituting force majeure under the CUSC;
  - (iii) a security period as defined in special condition AA5D; and
  - (iv) an event or circumstance other than listed above which is, in the opinion of the Authority, an income adjusting event and is

approved by it as such in accordance with paragraph 12(a) of this special licence condition,

where the event or circumstance has, for relevant year  $t$ , increased or decreased the value of  $IBC_t$  by more than £2,000,000 (the “threshold amount”). This threshold amount does not apply in respect of subparagraph 10(a)(iii) above.

- (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 modifications and amendments (both the original and any alternative unless otherwise specified) listed in tables 1 and 2 below shall not qualify as an income adjusting event for the purpose of paragraph 10(a) above:

**Table 1: Proposed modifications to the BSC**

<b>BSC Modification Proposal</b>	<b>BSC Modification Title (as entitled by the proposer of the modification)</b>
P157	Replacement of current Supplier Charges rules
P171	Retrospective removal of Emergency Instructions taken for System reasons from Imbalance Price
P172	Removal of Emergency Instructions taken for System reasons from Imbalance Price
P173 (original only)	Revised Settlement Arrangements for Emergency Instructions
P174	Provision of Users of an Interconnector with a single Boundary Point connection to form a Trading Unit amongst themselves and with other BM Units at the same site
P176	Clarification of the Requirements for Estimation/Deeming of Meter Readings/Advances in Certain Circumstances to Facilitate Correction of Anomalies in Settlement Calculations

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.

<b>BSC Modification Proposal</b>	<b>BSC Modification Title (as entitled by the proposer of the modification)</b>
P177	Removal of Intertrip provisions from the BSC
P178	Reduction in the BSC withdrawal timescale for parties who have settled the vast majority of their trading debts
P179	Housekeeping Modification
P180	Reduction to BSC Modification implementation dates, where an Authority decision is referred to Appeal or Judicial Review
P182	Review and redefinition of the Non Half Hourly Settlement performance measures
P183	Additional Mechanisms for Obtaining a valid Change of Supplier Read
P184	Clarification of BSC Section W in relation to the application of the Query Deadline to Trading Queries/Disputes
P185	Redrafting of BSC Sections U and W in relation to clauses pertaining to the processing and rectification of Trading Queries/Disputes
P186	Rationalising the criteria for the submission and redeclaration of Demand & Generation Capacities

**Table 2: Proposed amendments to the CUSC**

<b>CUSC Amendment Proposal</b>	<b>CUSC Amendment Title (as entitled by the proposer of the amendment)</b>
CAP075	Arrangements for Replacing Resigning Panel Members and Alternates
CAP076 (original only)	Treatment of System to Generator Intertripping Schemes
CAP077	Revision to CUSC Amendment Implementation Dates for Appeal or Judicial Review

## 11. Notice of proposed income adjusting event

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.

- (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) Where any other Party (as defined in the BSC) 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 that Party may give notice of this event to the Authority.
- (c) A notice provided to the Authority under paragraphs 11(a) and 11(b) shall, in the case of the licensee, and should, in so far as is practicable in the case of any other Party, give particulars of:
  - (i) the event to which the notice relates and the reason(s) why the person giving the notice 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 person giving the notice 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 person submitting the notice considers to be sufficient to enable the Authority and the relevant parties to fully assess the event to which the notice relates.

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- (d) If the Authority considers that the analysis or information provided in sub-paragraphs 11(c)(i) to 11(c)(iv) above is insufficient to enable both the Authority and the relevant parties 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.
  - (e) 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.
  - (f) The Authority will make public, excluding any confidential information, any notice of an income adjusting event following its receipt.
  - (g) Any notice submitted to the Authority under either paragraphs 11(a) or 11(b) 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 11(g)(i) is necessary for the purposes of enabling the relevant parties to fully assess the event to which the notice relates.

## 12. The Authority's determination

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- (a) Following consultation with relevant parties, including the licensee, BSC Parties and CUSC parties, the Authority shall determine:
- (i) whether any or all of the costs and/or expenses given in a notice pursuant to paragraphs 11(a) or 11(b) were caused or saved by an income adjusting event;
  - (ii) whether the event or circumstance has increased or decreased the value of  $IBC_t$  by more than the threshold amount, save in the case of sub-paragraph 10(a)(iii) where the threshold amount shall not apply; 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 income 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 ( $RT_t$ ) shall be:
- (i) the value determined by the Authority under paragraph 12(a) above; or
  - (ii) if the Authority has not made a determination under paragraph 12(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 11(c)(iii); or
  - (iii) in all other cases zero, including situations where the Authority has not made a determination under paragraph 12(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 relevant parties that the Authority considers that the analysis or information provided in accordance with paragraphs 11(c) and/or 11(d) is insufficient to enable the Authority and relevant parties 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 paragraphs 11(a) or 11(b) 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 (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.

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NSOC <sub>t</sub>	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 <sub>t</sub>	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 <sub>t</sub>	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 <sub>t</sub>	means, in respect of each relevant year t, the amount of any allowed income adjustment given by paragraph 18(b) below.
BI <sub>t</sub>	represents the costs incurred by the licensee for preparing for the introduction of BETTA and for the relevant year t commencing 1 April 2006 has the value £10,853,000.
TSPN <sub>t</sub>	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.

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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 £1,000,000 for the relevant year t commencing on 1 April 2006 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<sub>t</sub> 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 <sub>t</sub>	which is a balancing services activity sharing factor in respect of relevant year t, and has the value specified against the value of CSOC <sub>t</sub> for the relevant year t in the column headed ISF <sub>t</sub> in the appropriate table in paragraph B5 of Part B of Schedule A; and
IMT <sub>t</sub>	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.

- $CSF_{Mt}$  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 .
- $CP_{Mt}$  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.
- $OS_{Mt}$  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  $CSOC_t$  by more than £1,000,000 (the “STC threshold amount”).

(b) For the purpose of relevant year  $t$  commencing on 1 April 2006 and ending on 31 March 2007, 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:**

<b>Amendment No.</b>	<b>Amendment Title</b>

#### 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 subparagraphs 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.

19. [Not used]

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

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:

BXext<sub>t</sub>, CSOBM<sub>t</sub>, BSCC<sub>t</sub>, ET<sub>t</sub>, RT<sub>t</sub>, IncPayExt<sub>t</sub>, OM<sub>t</sub>, BXint<sub>t</sub>,  
CSOC<sub>t</sub>, IncPayInt<sub>t</sub>, PSC<sub>t</sub>, ASO<sub>t</sub>, SOBR<sub>t</sub> and CP<sub>Mt</sub>

and

BCA<sub>jt</sub>, SCA<sub>jt</sub>, BVA<sub>jt</sub>, SVA<sub>jt</sub> and QAS<sub>ij</sub>

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 subparagraphs 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 ( $IONT_t$ ) 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:**

**Not Used**

**Special Condition AA5C: Information to be Provided to the Authority in Connection with the Balancing Services Activity Revenue Restriction**

1. Not Used
2. Not Used
3. Not Used.
4. Not Used
5. Not Used:
6. Not Used.

**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:

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.

- 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: Not Used**

**Special Condition AA5E: Duration of the Transmission Network Revenue Restriction and the 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 2007; 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 2007.

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 licensee fees 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

$RPI_t$  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 2006 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.

**Special Condition AA5F: Not Used**

**Special Condition AA5G: Not Used**

**Special Condition AA5H: Not Used**

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**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 standard condition C4 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 standard condition C6 and borne by any person as connection charges in respect of connections made to a licensee's transmission system after the grant of 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 2 to 5 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 [xx] of standard condition B16 (Revenue Reporting) prior to issue of such directions related, unless such statement or the accompanying report or certificate referred to in paragraph [xx] of such standard 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

### Terms used in the balancing services activity revenue restriction

B1. For the purpose of paragraph 8 of Part 2(i) of special condition AA5A, the terms  $MT_t$ ,  $SF_t$  and  $CB_t$  shall be selected against the appropriate value of  $IBC_t$  (which shall be determined in accordance with paragraph 9 of special condition AA5A):

- (a) in respect of the relevant year  $t$  commencing on 1 April 2005
- (i) where the BETTA go-live date is a date later than 1 April 2005, for the period from and including 1 April 2005 up to the BETTA go-live date or up to and including 31 March 2006, if this is earlier than the BETTA go-live date, only, from the following table:

$IBC_t$ (£)	$MT_t$ (£)	$SF_t$	$CB_t$ (£)
< 219,900,000 (BPF)	0	0	40,000,000 (BPF)
219,900,000 (BPF) <= $IBC_t$ < 319,900,000 (BPF)	319,900,000 (BPF)	0.40	0
319,900,000 (BPF) <= $IBC_t$ < 419,900,000 (BPF)	319,900,000 (BPF)	0.40	0
>= 419,900,000 (BPF)	0	0	-40,000,000 (BPF)

- (ii) where the BETTA go-live date is a date later than 1 April 2005, for the period from and including the BETTA go-live date, if this is

earlier than or on 31 March 2006, up to and including 31 March 2006 only, from the following table:

<b>IBC<sub>t</sub> (£)</b>	<b>MT<sub>t</sub> (£)</b>	<b>SF<sub>t</sub></b>	<b>CB<sub>t</sub> (£)</b>
< 277,500,000 (1-BPF)	0	0	40,000,000 (1-BPF)
277,500,000 (1-BPF) <= IBC <sub>t</sub> < 377,500,000 (1-BPF)	377,500,000 (1-BPF)	0.40	0
377,500,000 (1-BPF) <= IBC <sub>t</sub> < 477,500,000 (1-BPF)	377,500,000 (1-BPF)	0.20	0
>= 477,500,000 (1-BPF)	0	0	-20,000,000 (1-BPF)

(iii) where the BETTA go-live date is 1 April 2005, from the following table:

<b>IBC<sub>t</sub> (£)</b>	<b>MT<sub>t</sub> (£)</b>	<b>SF<sub>t</sub></b>	<b>CB<sub>t</sub> (£)</b>
< 277,500,000	0	0	40,000,000
277,500,000 <= IBC <sub>t</sub> < 377,500,000	377,500,000	0.40	0
377,500,000 <= IBC <sub>t</sub> < 477,500,000	377,500,000	0.20	0
>= 477,500,000	0	0	-20,000,000

(b) in respect of the relevant year t commencing on 1 April 2006 and each relevant year thereafter, the terms MT<sub>t</sub>, SF<sub>t</sub> and CB<sub>t</sub> shall be set to zero.

- B2. For the purpose of paragraph B1, the value of the term BPF (being the BETTA Profiling Factor) in respect of the relevant period t shall be given by the following formula:

$$BPF = \frac{(NDS * PFS) + (NDW * PFW)}{365}$$

where:

- NDS which is the number of days (up to a maximum of 183) in the Summer Period from and including 1 April 2005 to the BETTA go-live date.
- Summer Period means the period from and including 1 April 2005 up to and including 30 September 2005.
- PFS which is the profiling factor in the Summer Period, shall have the value 0.9.
- NDW which is the number of days (up to a maximum of 182) in the Winter Period from and including 1 October 2005 to the BETTA go-live date.
- Winter Period means the period from and including 1 October 2005 up to and including 31 March 2006.
- PFW which is the profiling factor in the Winter Period, shall have the value 1.1.

- B3. For the purpose of paragraph 9 of Part 2(i) of special condition AA5A, the term  $TLRP_j$  in respect of each settlement period during relevant period t shall have the value in £ per megawatt hour of 29.00.

For the purpose of paragraph 9 of Part 2(i) of special condition AA5A, the term  $TLT_j$  in respect of each settlement period during relevant period t shall be given by the following formula:

$$TLT_j = \frac{TLT_t}{SP_t}$$

where:

- $TLT_t$  which is the target volume of transmission losses in relevant period  $t$ , shall have the value in megawatt hours of:
- a. 4,530,000 where the BETTA go-live date is a date later than 1 April 2005, for the period from and including 1 April 2005 up to the BETTA go-live date or up to and including 31 March 2006, if this is earlier than the BETTA go-live date, only.
  - b. 5,790,000 where the BETTA go-live date is a date later than 1 April 2005, for the period from and including the BETTA go-live date, if this is earlier than or on 31 March 2006, up to and including 31 March 2006 only.
  - c. 5,790,000 where the BETTA go-live date is 1 April 2005, for the relevant period  $t$ .
- $SP_t$  which is the total number of settlement periods in the relevant period  $t$ .

B4. For the purpose of paragraph 9 of Part 2(i) of special condition AA5A, the term  $NIRP_j$ , which is the net imbalance volume reference price for each settlement period  $j$ , during relevant period  $t$ , shall be derived as follows:

- (a) (i) where  $UKPXHH_j$  and  $UKPX4H_j$  data are published in respect of the relevant settlement period  $j$  then:

$$SPNIRP_j = (0.5 * UKPXHH_j) + (0.5 * UKPX4H_j)$$

- (ii) where  $UKPXHH_j$  data are published and  $UKPX4H_j$  data are not published in respect of the relevant settlement period  $j$  then:

$$SPNIRP_j = UKPXHH_j$$

- (iii) where  $UKPXHH_j$  data are not published and  $UKPX4H_j$  data are published in respect of the relevant settlement period  $j$  then:

$$SPNIRP_j = UKPX4H_j$$

- (iv) where neither UKPXHH<sub>j</sub> data nor UKPX4H<sub>j</sub> data have been published in respect of the relevant settlement period j then:

$$SPNIRP_j = SPNIRP_{j-1}$$

where:

- SPNIRP<sub>j</sub> means the single price net imbalance volume reference price for each settlement period j.
- j in all cases shall mean a settlement period (being a half an hour) as defined in the BSC.
- j-1 the settlement period immediately preceding the relevant settlement period j.
- UKPXHH<sub>j</sub> means the United Kingdom Power Exchange (UKPX) volume weighted reference price for each settlement period j based on the traded prices of half hourly spot contracts.
- UKPX4H<sub>j</sub> means the UKPX weighted average price in respect of all four (4) hour block market contracts delivered within the EFA block applying to those settlement periods j. In order to derive the UKPX4H<sub>j</sub> price in respect of each relevant settlement period j the EFA block containing the relevant settlement period j shall be used.

EFA block means the six four hourly blocks within the EFA day (being 23.00 hours to 23.00 hours in the immediately following day) set out in the table below:

<b>Block</b>	<b>Time</b>
1	23:00 to 03:00
2	03:00 to 07:00
3	07:00 to 11:00
4	11:00 to 15:00
5	15:00 to 19:00
6	19:00 to 23:00

(b) The term  $NIRP_j$  shall be derived as follows:

(i) where  $TQEI_j < 0$

$$NIRP_j = SPNIRP_j + (SPNIRP_j * PA1)$$

(ii) where  $TQEI_j > 0$

$$NIRP_j = SPNIRP_j - (SPNIRP_j * PA2)$$

(iii) where  $TQEI_j = 0$

$$NIRP_j = 0$$

where in respect of the relevant period  $t$ , the terms PA1 and PA2 shall have the value ascribed to those terms in the following table:

<b>PA1</b>	1.5
<b>PA2</b>	0.5

B5. For the purposes of paragraph 15 of Part 2(ii) of special condition AA5A, the term  $ISF_t$  shall be selected against the value of  $CSOC_t$  (which shall be determined in accordance with paragraph 14 of Part 2(ii) of special condition AA5A):

- (a) in respect of the relevant period  $t$  commencing on the day on which the effective time occurs, from the following table:

$(CSOC_t)$ (£)	$ISF_t$
$< 56,880,216 (RI_t / Z_t)$	0.40
$\Rightarrow 56,880,216 (RI_t / Z_t)$	0.12

where  $RI_t$  and  $Z_t$  shall have the meaning ascribed to them in paragraph B12.

- (b) in respect of the relevant year  $t$  commencing on 1 April 2002, from the following table:

$(CSOC_t)$ (£)	$ISF_t$
$< 55,869,013 (RI_t / Z_t)$	0.60
$\Rightarrow 55,869,013 (RI_t / Z_t)$	0.50

where  $RI_t$  and  $Z_t$  shall have the meaning ascribed to them in paragraph B12.

- (c) in respect of the relevant year  $t$  commencing on 1 April 2003, from the following table:

$(CSOC_t)$ (£)	$ISF_t$
$< 57,753,517 (RI_t / Z_t)$	0.50
$\Rightarrow 57,753,517 (RI_t / Z_t)$	0.50

where  $RI_t$  and  $Z_t$  shall have the meaning ascribed to them in paragraph B12.

- (d) in respect of the relevant year  $t$  commencing on 1 April 2004, from the following table:

<b>(CSOC<sub>t</sub>) (£)</b>	<b>ISF<sub>t</sub></b>
$< 57,567,216 (RI_t / Z_t)$	0.40
$\Rightarrow 57,567,216 (RI_t / Z_t)$	0.40

where  $RI_t$  and  $Z_t$  shall have the meaning ascribed to them in paragraph B12.

- (e) and in respect of the relevant year  $t$  commencing on 1 April 2005, from the following table:

<b>(CSOC<sub>t</sub>) (£)</b>	<b>ISF<sub>t</sub></b>
$< (60,656,843+EC_t) (RI_t / Z_t)$	0.40
$\Rightarrow (60,656,843+ EC_t ) (RI_t / Z_t)$	<p>0.40 where the BETTA go-live date is a date later than 1 April 2005, for the period from and including 1 April 2005 up to the BETTA go-live date or up to and including 31 March 2006, if this is earlier than the BETTA go-live date, only.</p> <p>0.20 where the BETTA go-live date is a date later than 1 April 2005, for the period from and including the BETTA go-live date, if this is earlier than or on 31 March 2006, up to and including 31 March 2006 only.</p>

	0.20 where the BETTA go-live date is 1 April 2005, for the relevant period t.
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where  $RI_t$  and  $Z_t$  shall have the meaning ascribed to them in paragraph B12, and  $EC_t$  has the meaning ascribed to it in paragraph B15.

- (f) in respect of the relevant year t commencing on 1 April 2006, from the following table:

(CSOC <sub>t</sub> ) (£)	ISF <sub>t</sub>
<68,932,600	1.0
68,932,600 =>	1.0

- B6. For the purposes of paragraph 15 of Part 2(ii) of special condition AA5A, the term  $IMT_t$  in respect of the relevant year t shall be derived from the following table:

Relevant Year Commencing 1 April	$IMT_t$ (£)
2001	56,880,216 ( $RI_t / Z_t$ )
2002	55,869,013 ( $RI_t / Z_t$ )
2003	57,753,517 ( $RI_t / Z_t$ )
2004	57,567,216 ( $RI_t / Z_t$ )
2005	(60,656,843 + $EC_t$ ) ( $RI_t / Z_t$ )
2006	68,932,600

where  $RI_t$  and  $Z_t$  shall have the meaning ascribed to them in paragraph B12, and  $EC_t$  has the meaning ascribed to it in paragraph B15.

- B7. For the purposes of paragraph 14 of Part 2(ii) of special condition AA5A, the term  $NSOC_t$  in respect of the relevant year t shall be derived from the following table:

Relevant Year Commencing 1 April	$NSOC_t$
2001	21,698,749 ( $RI_t / Z_t$ )
2002	21,165,761 ( $RI_t / Z_t$ )
2003	20,602,773 ( $RI_t / Z_t$ )
2004	20,120,580 ( $RI_t / Z_t$ )
2005	19,496,842 ( $RI_t / Z_t$ )
2006	26,026,100

where  $RI_t$  and  $Z_t$  shall have the meaning ascribed to them in paragraph B12.

- B8. For the purpose of paragraph 14 of Part 2(ii) of special condition AA5A, the term  $SOBR_t$  (being an allowance for non-domestic rates incurred by the licensee in operating the licensee's transmission system during relevant year t) shall be given by the following formula:

$$SOBR_t = SORate_t + \left( SORateDiff_t \left( 1 + \frac{I_t}{100} \right) \right)$$

where:

$SORate_t$  is given by the table below;

Relevant Year commencing 1 April	$SORate_t$
2000	0
2001	1,000,000
2002	1,000,000
2003	1,000,000
2004	1,000,000
2005	1,100,000
2006	1,100,000

and:

$SORateDiff_t$  is the difference between the non-domestic rates payable by the licensee in operating the licensee's transmission system in respect of year t-1 and  $SORate_{t-1}$ :

- B9. For the purpose of paragraph 14 of Part 2(ii) of special condition AA5A, the term  $PSC_t$  (being the costs incurred by the licensee in preparing participants' systems for the introduction of the New Electricity Trading Arrangements to be recovered under the balancing services activity) shall have the value given by the following formula:

$$PSC_t = PSAC_t + \left( PSACDiff_t \left( 1 + \frac{I_t}{100} \right) \right)$$

where:

$PSAC_t$  is given by the table below:

Relevant Year commencing 1 April	$PSAC_t$
2000	0

2001	4,200,000
2002	0
2003	0
2004	0
2005	0
2006	0

and:

$PSACDiff_t$  is the difference between the participant support costs incurred by the licensee in year  $t$  in respect of preparing participants' systems for the introduction of the New Electricity Trading Arrangements and  $PSAC_t$ .

- B10. For the purpose of paragraph 13 of Part 2(ii) of special condition AA5A, the term  $ASO_t$  shall have the value specified by the following formula:

$$ASO_t = \text{£}5,600,000 \left[ \frac{NT}{365} \right]$$

where:

$NT$  is given by the number of days, from and including the day on which the effective time occurred, to and including 31 March 2001, but otherwise have the value of zero.

- B11. For the purpose of paragraph 13 of Part 2(ii) of special condition AA5A, the value of the term  $NPI$

(a) in respect of the relevant period  $t$  shall be given by the following formula:

$$NPI = \frac{ND}{365} \quad \text{if} \quad ND \leq 365; \quad \text{or}$$

$$NPI = 1, \quad \text{if} \quad ND > 365;$$

where:

$ND$  is given by the number of days from and including the day on which the effective time occurs to and including 31

March 2002; and

(b) for each relevant year  $t$  thereafter shall be 1.

B12. For the purpose of paragraphs B5, B6, B7, B13 and B14 of this Schedule:

$Z_t$  has the value against relevant year  $t$  in the following table:

<b>Relevant year <math>t</math> Commencing 1 April</b>	<b><math>Z_t</math></b>
2001	175.17
2002	178.67
2003	182.25
2004	185.89
2005	189.61

and

$RI_t$  shall have the value  $Z_t$  until such time as the Retail Price Index for the last month of each relevant year  $t$  is known when it shall be the arithmetic average of the Retail Price Indices in respect of each month of each relevant year  $t$ .

$RM$  shall, until such time as the Retail Price Index for March 2001 is known, be 171.42 (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 2000 on the assumption that the Retail Price Index for January 1987 equals 100) after which it shall become the arithmetic average of the Retail Price Indices in respect of each month of the relevant year commencing on 1 April 2000.

B13. For the purpose of paragraph 15 of Part 2(ii) of special condition AA5A, the term  $CSF_{Mt}$  shall have the value:

(a) in respect of each month  $M$  of the relevant period  $t$  commencing at the effective time

- (i)  $CSF_{Mt} = 0.4$  when  $0 \leq 0.4 CP_{Mt} < £250,000$
- (ii)  $CSF_{Mt} = 0$  otherwise
- (b) in respect of each month M of the relevant year t commencing on 1 April 2002 and of each relevant year thereafter

(i)  $CSF_{Mt} = 0.4$  when  $0 \leq \left[ 0.4 CP_{Mt} \right] < \left[ £250,000 \left( \frac{Z_t}{RN} \right) \left( \frac{RI_t}{Z_t} \right) \right]$

- (ii)  $CSF_{Mt} = 0$  otherwise

where:

RN shall, until such time as the Retail Price Index for March 2002 is known, be 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) after which it shall become the arithmetic average of the Retail Price Index in respect of each month of the relevant year commencing on 1 April 2001.

and

$RI_t$  and  $Z_t$  shall have the meanings ascribed to them in paragraph B12.

B14. For the purposes of paragraph 15 of Part 2(ii) of special condition AA5A, the term  $OS_{Mt}$  shall have the value:

- (a) in respect of each month M of the relevant period t commencing at the effective time
- (i)  $OS_{Mt} = 0$  when  $CSF_{Mt} > 0$
- (ii)  $OS_{Mt} = £250,000$  when  $CSF_{Mt} = 0$
- (b) in respect of each month M of the relevant year t commencing on 1 April 2002 and of each relevant year thereafter
- (i)  $OS_{Mt} = 0$  when  $CSF_{Mt} > 0$

$$(ii) \quad OS_{Mt} = \pounds 250,000 \left( \frac{Z_t}{RN} \right) \left( \frac{RI_t}{Z_t} \right) \text{ when } CSF_{Mt} = 0$$

where:

$RI_t$  and  $Z_t$  shall have the meanings ascribed to them in paragraph B12 and  $RN$  shall have the meaning ascribed to it in paragraph B13.

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  $\pounds 6,315,000$  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 and for periods commencing from 1 April 2006, the value of  $EC_t$  is zero.

**SCHEDULE B : NOT USED**

**SCHEDULE 1: SPECIFIED AREA**

Great Britain.

**SCHEDULE 2: REVOCATION**

1. The Authority may at any time revoke the licence by giving not less than 30 days' notice (24 hours' notice, in the case of a revocation under sub-paragraph 1(f) in writing to the licensee:
  - (a) if the licensee agrees in writing with the Authority that the licence should be revoked;
  - (b) if any amount payable under condition 4 (Payments by Licensee to the Authority) is unpaid 30 days after it has become due and remains unpaid for a period of 14 days after the Authority has given the licensee notice that the payment is overdue - provided that no such notice shall be given earlier than the sixteenth day after the day on which the amount payable became due;
  - (c) if the licensee fails:
    - (i) to comply with a final order (within the meaning of section 25 of the Act) or with a provisional order (within the meaning of that section) which has been confirmed under that section and (in either case) such failure is not rectified to the satisfaction of the Authority within three months after the Authority has given notice of such failure to the licensee - provided that no such notice shall be given by the Authority before the expiration of the period within which an application under section 27 of the Act could be made questioning the validity of the final or provisional order or before the proceedings relating to any such application are finally determined; or
    - (ii) to pay any financial penalty (within the meaning of section 27A of the Act) by the due date for such payment and such payment is not made to the Authority within three months after the Authority has given notice of such failure to the licensee - provided that no such notice shall be given by the Authority before the expiration of the period within which an application under section 27E of the Act could be made questioning the validity or effect of the financial penalty or

- 
- before the proceedings relating to any such application are finally determined;
- (d) if the licensee fails to comply with:
    - (i) an order made by the Secretary of State under section 56, 73, 74 or 89 of the Fair Trading Act 1973; or
    - (ii) an order made by the court under section 34 of the Competition Act 1998;
  - (e) if the licensee:
    - (i) has ceased to carry on the transmission business;
    - (ii) has not commenced carrying on the transmission business within 5 years of the date on which the licence comes into force;
  - (f) if the licensee:
    - (i) is unable to pay its debts (within the meaning of section 123(1) or (2) of the Insolvency Act 1986, but subject to paragraphs 2 and 3 of this schedule) or has any voluntary arrangement proposed in relation to it under section 1 of that Act or enters into any scheme of arrangement (other than for the purpose of reconstruction or amalgamation upon terms and within such period as may previously have been approved in writing by the Authority);
    - (ii) has a receiver (which expression shall include an administrative receiver within the meaning of section 251 of the Insolvency Act 1986) of the whole or any material part of its assets or undertaking appointed;
    - (iii) has an administration order under section 8 of the Insolvency Act 1989 made in relation to it;
    - (iv) passes any resolution for winding-up other than a resolution previously approved in writing by the Authority; or
    - (v) becomes subject to an order for winding-up by a court of competent jurisdiction; or

- (g) if the licensee is convicted of having committed an offence under section 59 of the Act in making its application for the licence.
- 2. For the purposes of sub-paragraph 1(f)(i), section 123(1)(a) of the Insolvency Act 1989 shall have effect as if for "£750" there was substituted "£250,000" or such higher figure as the Authority may from time to time determine by notice in writing to the licensee.
- 3. The licensee shall not be deemed to be unable to pay its debts for the purposes of sub-paragraph 1 (f)(i) if any such demand as is mentioned in section 123(1)(a) of the Insolvency Act 1989 is being contested in good faith by the licensee with recourse to all appropriate measures and procedures or if any such demand is satisfied before the expiration of such period as may be stated in any notice given by the Authority under paragraph