

Transmission price control review: Draft licence conditions (electricity) - second informal consultation – Appendix 8

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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.

Contact name and details: Robert Hull, Director Transmission

Tel: 020 7901 7050

Email: robert.hull@ofgem.gov.uk

Team: Transmission Directorate

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 – NGET Transmission Licence Special Conditions - second informal consultation - Appendix 6, January 2007 (Ref No. 10a/07)
- TPCR 2007-2012 Draft licence conditions SPTL Transmission Licence Special Condition - second informal consultation - Appendix 7, January 2007 (Ref No. 10b/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)

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Appendix 6 – SHETL Transmission Licence Special Conditions

TRANSMISSION LICENCE OF SHETL

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

Transmission licensee (company number SC189216): Special Conditions Consolidated – 11 August 2006

ANNEXE 2

SHETL TRANSMISSION LICENCE

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

Transmission licensee (company number SC189216): Special Conditions Consolidated – 11 August 2006

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 SP Transmission Limited (a company registered in Scotland under number SC189126 ("the licensee") whose registered office is situated at 1 Atlantic Quay, Robertson Street, Glasgow G2 8SP, 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 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 be included and have effect in the licence; and
 - (ii) paragraph 2 of Part II below which shall have effect in the licence only in accordance with the provisions of standard conditions A2 and A3 respectively,

in each case, subject to such amendments (if any) as are set out in Part III below (together "the conditions");
 - (b) the special conditions, if any, set out in Part IV below ("the Special Conditions");
 - (c) 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 the terms of 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, -
 - (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.

Pursuant to a licensing scheme made by the Secretary of State under Part II of Schedule 7 to the Utilities Act 2000 on 28th September 2001 this licence was made and is treated as granted under section 6(1)(b) of the Electricity Act 1989.

PART II. THE STANDARD CONDITIONS

1. Standard conditions in effect in this licence

[NEEDS TO BE AMENDED]

2. Standard conditions not in effect in this licence

[NEEDS TO BE AMENDED]

SPECIALS CONDITIONS

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

1. In these special conditions unless the context otherwise requires:

"appropriate time"	for the purposes of special condition D (Independence of and appointment of managing director of the transmission business) only, has the meaning given in that condition.
"competent authority"	for the purposes of special condition C (Restriction on use of certain information) only, has the meaning given in that condition.
"confidential information"	for the purposes of special condition C (Restriction on use of certain information) only, has the meaning given in that condition.
"Electricity Arbitration Association"	for the purposes of special condition C (Restriction on use of certain information) only, has the meaning given in that condition.
"external distribution activities"	for the purposes of special condition C (Restriction on use of certain information) only, has the meaning given in that condition.
"external transmission activities"	for the purposes of special condition D (Independence of and appointment of managing director of the transmission business) only, has the meaning given in that condition.

2. Subject to paragraph 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.
3. Where a term is used in these special conditions and is also used in Section D 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 D of the standard conditions.
4. 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

The area specified in the Electricity Act 1989 (North of Scotland Specified Area) Order 1990 made on 7 March 1990 but excluding the Cruachan Transmission Line.

In this condition, "the Cruachan Transmission Line" means the double circuit 275kV transmission line extending from the Cruachan Station Works, to the Dalmally Switching Station and thereafter to the Windyhill Substation together with all lattice towers, conductors, insulators, associated cables and connections, and all other items of plant or equipment making up or supporting said transmission line, with the benefit, subject to the applicable conditions therein, of all wayleaves and/or servitude rights relating thereto and where any expressions used in this definition are defined in a transfer scheme, the expressions shall have the same meaning as in such transfer scheme.

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:
 - (a) co-ordinate or direct the flow of electricity onto or over the whole or any part of the GB transmission system except where permitted to do so under the STC, subject to the approval of the Authority, or where required to do so by any other licence condition; and
 - (b) outside its transmission area, make available assets comprising part of the GB transmission system which are intended for the purpose of conveying or affecting the flow of electricity.**

Special Condition C. Restriction on use of certain information

1. Any information relating to or deriving from the management or operation of the transmission business shall, for the purposes of this condition, be treated as confidential information.
2. The licensee shall not (and shall procure that its affiliates and related undertakings shall not) disclose or authorise access to confidential information:
 - (a) save to the extent provided by sub-paragraphs 3(b) to (d), to such of its (or its affiliates' or related undertakings') employees, agents, advisers, consultants or contractors as are engaged in, or in respect of, the management or operation of any other business (whether or not a separate business) of the licensee; or
 - (b) save to the extent permitted by paragraph 3, to any other person.
3. Subject to paragraphs 9 to 12 of special condition D (Independence of and appointment of managing director of the transmission business), the licensee shall (and shall procure that its affiliates and related undertakings shall) disclose or authorise access to confidential information only:
 - (a) in the following circumstances, namely;
 - (i) to such of its (or its affiliates' or related undertakings') employees, agents, advisers, consultants or contractors as are engaged in, or in respect of, the management or operation of the transmission business or any external transmission activities and require access to the information for that purpose;
 - (ii) to personnel of any holder of a distribution licence or a transmission licence holder engaged in the external distribution activities of that distribution licence holder, or the external transmission activities of that transmission licence holder (as the

case may be), to the extent necessary for the performance by such personnel of those external distribution activities, or those external transmission activities (as the case may be), and the use by such personnel of that information for that purpose;

provided that effective arrangements are maintained in place at all times for ensuring that no further disclosure of any information supplied or obtained pursuant to this paragraph is made and that such information is used only for the purpose of the transmission business or any external transmission activities of the licensee;

- (b) where the licensee (or any affiliate or related undertaking of the licensee) is required or permitted to disclose such information by virtue of:
 - (i) any requirement of a competent authority;
 - (ii) the standard conditions of any licence granted or taking effect as if granted under the Act or any document referred to in such a licence with which it is required by virtue of the Act or that licence to comply;
 - (iii) any other requirement of law; or
 - (iv) the rules of the Electricity Arbitration Association or of any judicial or other arbitral process or tribunal of competent jurisdiction;
- (c) where such information was provided by or relates to any person who has notified (or otherwise agreed with) the licensee that it need not be treated as confidential;
- (d) where such information, not being information provided by or relating to any person other than the licensee, is placed by the licensee in the public domain; or

- (e) where such information is required for the purposes of assisting other transmission licence holders, including National Grid Company plc in the capacity of the party who has been identified by the Minister for Energy as the party whose application to be GB System Operator the government is minded to accept, to prepare for and plan and develop the operation of a GB transmission system and such other matters as will facilitate the implementation of new arrangements relating to the trading and transmission of electricity in Great Britain designed –
- (i) to promote the creation of a single competitive wholesale electricity trading market; and
 - (ii) to introduce a single set of arrangements for access to and use of any transmission system in Great Britain,

and in each case the licensee shall disclose or authorise access to the confidential information only insofar as is necessary or appropriate in all the circumstances.

4. Subject to paragraphs 9 to 12 of special condition D (Independence of and appointment of managing director of the transmission business), the licensee shall use all reasonable endeavours to ensure that any person who is in possession of or has access to confidential information in accordance with sub-paragraph 3(a) shall use such information only for the purposes of the transmission business or any external transmission activities.

5. In this condition

"competent authority" means the Secretary of State, the Authority, the Compliance Officer, the Stock Exchange, the Panel on Take-overs and Mergers, or any local or national agency, regulatory body, authority, department, inspectorate, minister (including Scottish Ministers),

	ministry, official or public or statutory person (whether autonomous or not) of, or of the government of, the United Kingdom, the United States of America or the European Community.
"confidential information"	bears the meaning given at paragraph 1.
"Electricity Arbitration Association"	means the unincorporated members' club of that name formed inter alia to promote the efficient and economic operation of the procedure for the resolution of disputes within the electricity supply industry by means of arbitration or otherwise in accordance with its arbitration rules.
"external distribution activities"	means any business of the licensee or any affiliate or related undertaking comprising or ancillary to the maintenance, repair or operation of, or other activities in connection with any electricity distribution or transmission system other than the licensee's distribution system ("an external distribution system").
"external transmission activities"	has the meaning given to that term in special condition D (Independence of and appointment of managing director of the transmission business) of this part of this licence.

Special Condition D. Independence of and appointment of managing director of the transmission business

1.
 - (a) The licensee shall establish and shall thereafter maintain the full managerial and operational independence of the transmission business and any external transmission activities from each other business (whether or not a separate business) of the licensee and of its affiliates and related undertakings.
 - (b) The licensee shall appoint an officer (hereafter referred to as "the Managing Director of Transmission") to be responsible for the conduct of the transmission business and any external transmission activities.
2. The Managing Director of Transmission may be a director:
 - (a) of the transmission licensee; or
 - (b) in the circumstances set out in paragraph 12 only, of the licensee and of an affiliate or related undertaking of the licensee which holds a distribution licence or a holding company only engaged in ownership or management of distribution or transmission businesses or both;

provided that the licensee shall ensure that the Managing Director of Transmission shall not be a director of any other affiliate or related undertaking of the licensee and that he shall not be engaged by the licensee in any other capacity than as Managing Director of Transmission.
3. The licensee shall arrange for the Managing Director of Transmission in the course of discharging his responsibility under paragraph 1 to be provided from time to time with:
 - (a) the services of such persons (as the Managing Director of Transmission may from time to time select), whose services:

- (i) may be dispensed with at the sole discretion (subject to compliance with relevant UK employment legislation) of the Managing Director of Transmission; and
 - (ii) will only be utilised if such persons execute a contract of or for services containing an appropriate confidentiality clause regarding that information which may be acquired by such person whilst working for the transmission business and any external transmission activities;
- (b) such premises, systems, equipment, facilities, property, personnel, data and management resources; and
 - (c) such finance;

as may be reasonably required by the Managing Director of Transmission for the efficient and effective management and operation of the transmission business in accordance with the licensee's duty under section 9(2)(a) of the Act and the transmission licence.

4. The licensee shall direct the Managing Director of Transmission:

- (a) to inform the directors of the licensee, in writing, if, at any time, he is of the opinion that the provision of those items specified in paragraph 3 are not sufficient to enable the licensee to comply with its duties under section 9(2)(a) of the Act and the transmission licence; and
- (b) as soon as practicable after the end of the year 2001 and of each subsequent calendar year, to furnish to the directors of the licensee:
 - (i) an informative report on the provision of those matters made in respect of that year; and
 - (ii) a statement of his opinion whether adequate arrangements have been or are likely to be made for the provision of those matters which will be required in respect of the ensuing calendar year to

enable the licensee to comply with those duties including, in particular, a description of the differences in the provision of those matters made or likely to be made in that year compared with the provision made in respect of the preceding year and the reasons for those differences.

5. On receipt of any information under paragraph 4(a) or report and statement under paragraph 4(b), the licensee shall, subject to compliance with the listing rules (within the meaning of Part IV of the Financial Services Act 1986 (c.60)) of the Stock Exchange:
 - (a) give to the Authority forthwith that information or report and statement; and
 - (b) where such a report is received, publish it in such form and manner as the Authority may direct.

6. Except insofar as the Authority consents to the licensee doing so, the licensee shall only give directions to the Managing Director of Transmission as to the discharge of his responsibilities under paragraph 1:
 - (a) where:
 - (i) in the bona fide and reasonable opinion of the licensee the statutory, licence and contractual obligations of the licensee; or
 - (ii) in the bona fide opinion of the directors, their duties; so require; or
 - (b) to ensure compliance with paragraph 4.

7. The licensee shall give directions under sub- paragraph 6(a) by notice in writing, specifying in the notice the statutory, licence or contractual obligations of the licensee or duty of the directors of the licensee which require the licensee to give directions, which notice shall be copied to the Authority.

8. Except insofar as the Authority consents to the licensee not doing so, the licensee shall, subject to paragraph 9 below, ensure that:
- (a) no business of the licensee (or of any affiliate or related undertaking of the licensee), other than the transmission business or any external transmission activities, may use or have access to:
 - (i) premises or parts of premises occupied by persons engaged in, or in respect of, the management or operation of the transmission business or any external transmission activities;
 - (ii) systems for the recording, processing or storage of data to which persons engaged in, or in respect of, the management or operation of the transmission business or any external transmission activities also have access;
 - (iii) equipment, facilities or property employed for the management or operation of the transmission business or any external transmission activities; or
 - (iv) the services of persons who are (whether or not as their principal occupation) engaged in, or in respect of, the management or operation of the transmission business or any external transmission activities; and
 - (b) it can and does, insofar as is legally possible, prevent any person who has ceased to be engaged in, or in respect of, the management or operation of the transmission business from being engaged in, or in respect of, the activities of any other business of the licensee (or of any affiliate or related undertaking of the licensee) until the expiry of an appropriate time from the date on which he ceased to be engaged by the transmission business.
9. The Authority may, upon the written request of the licensee, issue a direction relieving the licensee of its obligations under special condition C (Restriction on use of certain information) and under paragraphs 1(a), 2 and 8 of this condition, to

such extent and subject to such terms and conditions as he may specify in that direction, where:

- (a) it is not reasonably practicable for the licensee to comply with any aspect of those obligations;
- (b) in the case of paragraphs 2 to 4 of special condition C (Restriction on use of certain information), a failure to comply with any aspect of those obligations would be of a trivial nature; or
- (c) in the case of paragraphs 1(a) and 8 of this condition, any arrangements for the use of or access to premises, systems, equipment, facilities, property or personnel by both the transmission business and any other business of the licensee (or of any affiliate or related undertaking of the licensee):
 - (i) do not involve a cross-subsidy being either given to the transmission business by such other business or received from the transmission business by such other business;
 - (ii) obtain for the transmission business, in the most efficient and economical manner possible, the use of the relevant premises, systems, equipment, facilities, property or personnel; and
 - (iii) do not restrict, distort or prevent competition in the generation or supply of electricity,

provided that the licensee shall not thereby be relieved of any obligation imposed on it by EU Directive 96/92/EC.

10. Where, subsequent to the issue of a direction pursuant to paragraph 9, the criteria set out at sub-paragraphs 9(a), (b) or (c) cease to be satisfied, the Authority may withdraw the direction or modify any terms and conditions which may be specified in it.

11. For the purposes of paragraphs 9 and 10 the Authority shall, following consultation with the licensee, determine any question as to whether the criteria set out at sub-paragraphs 9(a), (b) or (c) are or continue to be satisfied.
12. If the Authority is requested to issue any direction pursuant to paragraph 9 relating to the transmission business being managed or operated by the licensee together with any distribution business then that direction may provide that for the purposes of this condition and of special condition C (Restriction on use of certain information) the transmission business shall be taken to include any such distribution business and for the Managing Director of Transmission to take part in the management of and/or to be a director of any company carrying on any such distribution business.
13. In this condition
 - "appropriate time" means 3 months, or such shorter period as the Authority may approve in respect of any person or class of persons.
 - "external transmission activities" means any business of the licensee or any affiliate or related undertaking of the licensee comprising or ancillary to the maintenance, repair or operation in an emergency of any electricity distribution system or any part of the GB transmission system other than the licensee's transmission system.

Special Condition E. Appointment of compliance officer

1. The licensee shall prepare a statement in a form approved by the Authority setting out the practices, procedures and systems which the licensee has adopted (or intends to adopt) to ensure its compliance with the relevant duties.
2. The licensee may periodically revise the information 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 information 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.
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 the relevant duties.
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 practices, procedures and systems 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) recommending and advising upon the remedial action which any such investigation has demonstrated to be necessary or desirable;
 - (e) 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 subparagraph (d); and
 - (f) reporting annually to the directors of the licensee - in respect of the year ending 31 December 2001 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 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:
- "relevant duties" means the obligations set out in special condition C (Restriction on use of certain information).

Special Condition F. Amended standard conditions

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

- (a) the following text shall be inserted between the definition of "Section D (transmission owner standard conditions) Directions" and the definition of "statutory accounts":

"separate business"

means each or any of:

- (a) any supply business of (i) the licensee or (ii) an affiliate or related undertaking of the licensee;
 - (b) any distribution business of (i) the licensee or (ii) an affiliate or related undertaking of the licensee;
 - (c) any generation business of (i) the licensee or (ii) an affiliate or related undertaking of the licensee;
 - (d) any interconnector business of (i) the licensee or (ii) an affiliate or related undertaking of the licensee.”;
- (b) in the definition of "transmission business", the following text shall be added as sub-paragraph (i) "any other separate business;"
- (c) the existing sub-paragraphs (i) and (ii) of the definition of "transmission business" shall be renumbered as (ii) and (iii) respectively; and
- (d) in the definition of "transmission business" in sub-paragraph (iii), the words "(whether or not a separate business)" are inserted after "any other business".

2. Standard condition B1 (Regulatory accounts) shall be amended by the addition of the following text at the beginning of paragraph 6:
 - "6. Unless the Authority otherwise consents (such consent may be given in relation to some or all of the obligations in this condition and may be given subject to such conditions as the Authority considers appropriate), ...".
3. Standard condition B6 (Restriction on activity and financial ringfencing) shall be amended as follows:
 - (a) in paragraph 4(b)(ii), the words "the date this condition comes into effect in the licensee's transmission licence" are deleted and the words "28 September 2001" are inserted; and
 - (b) in paragraph 4(d)(i), the words "the date this condition comes into effect in the licensee's transmission licence" are deleted and the words "28 September 2001" are inserted.
4. Paragraph 1(d) of standard condition B9 (Indebtedness) shall be amended by deleting the words, "date this condition comes into effect in the licensee's transmission licence" and inserting the words "1 October 2001".

Special Condition G: 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 Annexe to the Directive.
- "Member State" means a Member State of the European Union.
- "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. The licensee shall, after receiving in connection with transit for a minimum duration of one year an application by an 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 European Commission without delay of the matters set out in paragraph 3 below.

3. 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;
 - (c) the conclusion of the agreement, whether it is concluded before or after the expiry of the period mentioned in sub-paragraph (b) above.

4. 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), 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 H. 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 I: Not Used

Special Condition J1. Restriction on Transmission Charges (Definitions)

1. In this condition and in special conditions J1 to J11 inclusive and in schedule A to C:

"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 the calculation falls to be made.
"BETTA"	means the British electricity trading and transmission arrangements which are provided for in Chapter 1 of Part 3 of the Energy Act 2004
" charge restriction conditions"	means Special Conditions J1 to J11 inclusive together with Schedules A to C to this licence, as from time to time modified or replaced in accordance with the provisions of the Act.
"excluded services"	means those services provided as part of the transmission business which in accordance with the principles set out in Part A of Schedule A fall to be treated as excluded services.
"maximum regulated transmission revenue"	means the regulated transmission revenue of the licensee calculated in accordance with the formula contained in Special Condition J2 (Restriction of Transmission Charges).
"metered"	means in relation to any quantity of units of electricity transmitted, as measured by a meter installed for such purpose or (where no such meter is installed) as otherwise reasonably calculated.

“network rates”	means rates levied on transmission network assets and excluding general and national business rates and rates for water supply and sewerage services.
"notified value"	means, in relation to any term, such value as the Secretary of State shall ascribe to that term in a written notice given to the licensee as soon as practicable after the date of grant of this licence.
“outage change”	has the meaning given in Schedule A.
“rateable value”	has the meaning ascribed to it in the Valuation and Rating (Scotland) Act 1956, section 6(viii)
"regulated transmission revenue"	means the revenue (measured on an accruals basis) derived from the provision of transmission owner services (including to any separate business, other than the transmission business) in the relevant year, after deduction of value added tax (if any) and any other taxes based directly on the amounts so derived.
"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 or, in respect of the period prior to 1 April 1990, the period of 12 calendar months commencing on 1 April 1989; and similar expressions shall be construed accordingly.
TIRG relevant year t_i	means, in relation to each transmission investment project i specified in Schedule C,

the relevant year in which a revenue allowance falls to be made under Special Condition J3 with respect to that transmission investment project i:

- (a) $t=p$ means the relevant year commencing on 1 April 2005;
- (b) $t=p$ to $t=-1$ means the preconstruction period (where $p \leq -1$);
- (c) $t=0$ means the relevant year in which construction of that transmission 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 owner services"

means all services provided as part of the transmission business other than excluded services.

"unit"

means a kilowatt hour.

Special Condition J2: Restriction of transmission charges

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

Transmission Owner Revenue Restriction

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

Formula for Transmission Owner Revenue Restriction

- 3 In respect of the relevant year commencing 1 April 2007 and each subsequent relevant year t, the maximum allowed 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 allowed 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 £47.0 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 2004, 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 J3 (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 J4 (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 J5 (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 J7 (Capital Expenditure Incentive and Safety Net).

IE_t means the allowance made in respect of the relevant year t representing the estimated costs incurred by the licensee in that relevant year in association with the issuance of new equity and shall take the value set against the licensee's name 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

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

Where:

AR_{t-1} means, subject to paragraph 3 of special condition J6, the regulated transmission revenue, as defined in special condition J1

(Definitions), 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 allowed revenue in the relevant year t-1 except in the year 1st April 2007 where it shall be the maximum revenue (TR_t) as defined by Special Condition J (Restriction of transmission charges) in the licence in force on 31 March 2007.

I_t means the average specified rate as defined in special condition J1 (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 per cent, the value four (4), otherwise is equal to the value zero (0).

Special Condition J3 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 Schedule C.

- 2 For each TIRG relevant year t, the annual revenue allowance for each transmission investment project i specified in Schedule C 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 adjustments 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.

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

$$IPTIRG_t^i = CFTIRG_t^i * ARPI_t$$

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 Schedule C for each TIRG relevant year t , and where no value is specified in Schedule C for a TIRG relevant year t shall have the value of zero.

$ARPI_t$ 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:

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

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.

- 4 (a) For the purposes of this paragraph, a TIRG income adjusting event means an event or circumstance occurring in the preconstruction 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 J3.
- (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 J3;
 - (v) the amount of any TIRGIncAd $_t^i$ income adjustment allowance proposed as a consequence of that event and how this TIRGIncAd $_t^i$ income adjustment allowance has been calculated; and
 - (vi) 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 TIRGIncAd $_t^i$ 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 TIRGIncAd $_t^i$ 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 $TIRGIncAd_t^i$ 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 $TIRGIncAd_t^i$ 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 $TIRGIncAd_t^i$ shall be the $TIRGIncAd_t^i$ 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.
- 5 For the purposes of paragraph 2, the term $FTIRG_t^i$ 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 (8.8%).

$FTIRGC_t^i$ 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 , $FTIRGC_t^i$ shall be zero; and
- (b) where the licensee has been granted planning consent to build the transmission investment project i , $FTIRGC_t^i$ shall have the value specified in Schedule C for each TIRG relevant year t , and where no value is specified in Schedule C for a TIRG relevant year t shall have the value of zero.

$AFFTIRG_t^i$ means one or more adjustments 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.

$FTIRGDeprn_t^i$ 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 , $FTIRGDeprn_t^i$ shall be zero; and
- (b) where the licensee has been granted planning consent to build the transmission investment project i , $FTIRGDeprn_t^i$ 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 J3.
- (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 $t=n$ (FTIRG_{Ct}) 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;

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- (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 J3;
 - (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; and
 - (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.

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

$$ETIRG_t^i = (CCTIRG \times (ETIRGC_t^i \times SAFRTIRG^i) \times ARPI_t) + (Dep_t^i \times SAFRTIRG^i \times ARPI_t)$$

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 Schedule C for each TIRG relevant year t , and where no value is specified in Schedule C for a TIRG relevant year t shall have the value of zero.

$SAFRTIRG^i$ 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:

$$SAFRTIRG^i = [SAFTIRG^i / ETIRGORAV^i]$$

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 Schedule C.

$ARPI_t$ 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 Schedule C.

- 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 Schedule C 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 ($AFFTIRGDepn_t^i$ 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 $SAFTIRG^i$ 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.

9 For the purposes of paragraph 2, the term $ATIRG_t^i$ 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.

Special Condition J4 – Pass through Items

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

$$PT_t = LF_t + RB_t + IAT_t$$

Where

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.

IAT_t means the revenue adjustment factor in respect of an income adjusting event and shall be determined in accordance with paragraphs 6 to 8

Formula for the Licence Fee Revenue Adjustment

2. For the purposes of paragraph 1, LF_t is an amount calculated in accordance with the following formula:

$$LF_t = LP_t - LA_t$$

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 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 in respect of the relevant year commencing 1 April 2007 and each subsequent relevant year shall take the value zero.

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:

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

Where RPI is determined in accordance with paragraph 3 of special condition J2

Formula for the Network rates Revenue Adjustment

3. For the purposes of paragraph 1, subject to paragraph 4 below, RB_t 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 network rates.

RA_t is the network rates allowance, and is derived from the following formula:

$$RA_t = RV_t \times PIT_t$$

where:

RV_t is the network 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	£3.5 million	£3.5 million	£3.5 million

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 in paragraph 2:

4. From the relevant year commencing 1 April 2010 RB_t shall equal zero, unless otherwise directed by the Authority prior 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. the values of RV_t that shall apply in respect of the relevant years commencing 1 April 2010 and 1 April 2011 for the purposes of the calculation referred to in sub-paragraph (a).

Formula for an adjustment in respect of an Income Adjusting Event

6. 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 those listed at sub-paragraph (i) and (ii) which is, in the opinion of the Authority, an income adjusting event and approved by the Authority as such in accordance with paragraph 8 of this condition

where the event or circumstance has, for relevant year t, increased or decreased costs and/ or expenses borne by the licensee by more than £1,000,000 (the “STC threshold amount”).

- (b) For the purpose of relevant year t commencing on 1 April 2007 and ending on 31 March 2012 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 xx(a) above:

Table 1:

Amendment No.	Amendment Title

7. 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 directly as a consequence of 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 7(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 required to enable the Authority and the relevant parties referred to in subparagraph 8(a) to fully assess the event to which the notice relates.
- (c) If the Authority considers that the analysis or information provided in subparagraphs 7(b)(i) to 7(b)(iv) above is insufficient to enable both the Authority and the relevant parties referred to in subparagraph 8(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 7(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 7(f)(i) is necessary for the purposes of enabling the relevant parties referred to in paragraph 8(a) to fully assess the event to which the notice relates.

- 8. The Authority's determination
 - (a) The Authority shall determine (after consultation with the licensee and such other persons as it considers appropriate):
 - (i) whether any or all of the costs and/or expenses specified in a notice submitted pursuant to paragraph 7(a) were caused or saved by an income adjusting event;
 - (ii) whether the event or circumstance has increased or decreased the relevant costs and/or expenses 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 allowed income adjustment should apply.
- (b) In relation to the relevant year t , the allowed income adjustment (IAT_t) shall be:
 - (i) the value determined by the Authority under paragraph 8(a) above; or
 - (ii) if the Authority has not made a determination under paragraph 8(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 7(b)(iii); or
 - (iii) in all other cases zero, including situations where the Authority has not made a determination under paragraph 8(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 7(b) and/or 7(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 7(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 such other persons as the Authority considers appropriate. 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.

Special condition J5: Incentive Payments

1. For the purposes of paragraph 3 of special condition J2 (Restriction on Transmission Charges) IP_t is derived from the following formula:

$$IP_t = RI_t + RevDrvSHE_t + IFI_t + SFI_t + RCI_t$$

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 Part 1 of this condition.

$RevDrvSHE_t$ means the adjustment to revenues pursuant to variations between actual and assumed volumes of connected generation and demand and shall be calculated in accordance with Part 2 of this condition.

IFI_t means the revenue adjustment factor in respect of expenditure pursuant to the Innovation Funding Incentive and shall be calculated in accordance with Part 3 of this condition.

SFI_t means the revenue adjustment factor in respect of rates of leakage of SF6 and shall be calculated in accordance with Part 4 of this condition.

RCI_t means the revenue adjustment factor in the relevant year t in respect of the five year rolling capital and operating cost incentive mechanisms calculated in accordance with Part 5 of this condition.

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:

$$RI_t = PR_{t-1}.RAF_y$$

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 £[xxx] million. 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 in the relevant year commencing 1 April 2007 calculated in accordance with the formula specified in paragraph 3 of Special Condition J2 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 event target in respect of incentive period y, which is the number of events 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
$RILT_y$	10	8	8	8	8	8

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

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

y	2006 to 31 March 2007	2007 to 31 March 2008	2008 to 31 March 2009	2009 to 31 March 2010	2010 to 31 March 2011	2011 to 31 March 2012
RIUT_y	12	10	10	10	10	10

RIUPA_y 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
RIUPA_y	0.50%	0.50%	0.50% (subject to paragrap h 3)	0.50% (subject to paragrap h 3)	0.50% (subject to paragrap h 3)	0.50% (subject to paragrap h 3)

RIDPA_y 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	1 April	1 April	1 April	1 April	1 April	1 April

y	2006 to 31 March 2007	2007 to 31 March 2008	2008 to 31 March 2009	2009 to 31 March 2010	2010 to 31 March 2011	2011 to 31 March 2012
RIDPA_y	-0.75%	-0.75%	-0.75%	-0.75%	-0.75%	-0.75%

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

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
RICOL_y	26	22	22	22	22	22

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

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

- For the purposes of calculating RAF_y , $RIUPA_y$ shall take the value of 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 user’s request for disconnection in accordance with the Grid Code;
 - (d) any unsupplied energy resulting from emergency de-energisation of part of the licensee's transmission system, either as a consequence of a user's request for emergency de-energisation of its equipment or the user carrying out an emergency de-energisation of its equipment;
 - (e) any unsupplied energy resulting from a planned outage as defined in the Grid Code;
 - (f) any unsupplied energy resulting from a de-energisation or disconnection of a user’s equipment necessary to ensure compliance with an instruction by the system operator to the licensee pursuant to the STC; and
 - (g) any unsupplied energy resulting from an emergency de-energisation or disconnection of a user’s equipment necessary to ensure compliance with the Electricity Safety, Quality and Continuity Regulations 2002, as amended from time to time, or to otherwise ensure public safety.
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 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 number of incentivised loss of supply events in incentive period y 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 7 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 – Revenue Drivers

10. For the purposes of paragraph 1, the maximum revenue allowed to the licensee as a consequence of relevant generation seeking connection to the licensee’s transmission system in respect of formula year t ($RevDrvSHE_t$) shall be derived in accordance with this condition, where:

relevant generation means the cumulative amount of generation capacity connected to a part of the licensee’s transmission system (or connected to a distribution system which in turn connects to a part of the licensee’s transmission system), (but excluding high

cost projects) for which attributable local connection works are completed and commissioned (in accordance with the System Operator Transmission Owner Code, STC) after 31 March 2005;

high cost project means local connection works being or to be undertaken by the licensee to facilitate the connection of a specified predicted megawatt volume of generation capacity where the licensee, using its best endeavours, estimates that the capital expenditure incurred in completing the relevant set of local connection works will exceed £163,000 (in 2004/05 prices) per megawatt of predicted capacity;

local connection works means sole use infrastructure works associated with the connection of generation capacity as specified in relevant agreements between the licensee and the system operator pursuant to the STC; and

deep reinforcement works means infrastructure works other than generation sole use and sole infrastructure works as specified in relevant agreements between the licensee and the system operator pursuant to the STC.

11. RevDrvSHE_t shall be calculated in accordance with the following formula:

$$\text{RevDrvSHE}_t = \text{RDDep}_t + \{((\text{RDO}_t + \text{RDC}_t)/2) * \text{RDRet}\} + (\text{RDGav}_t * 0.01)$$

where:

$RDDep_t$ means an allowance for depreciation and shall be calculated in accordance with the formula below:

$$RDDep_t = RDGAV_t * 0.05$$

RDO_t means the opening value of revenue driver RAV on 1 April in year t and shall take a value of zero in relevant year commencing 1 April 2007, and shall be calculated in accordance with the following formula in subsequent relevant years:

$$RDO_t = RDC_{t-1}$$

RDC_t means the closing value, in 2004/05 prices, of the revenue driver RAV in relevant year t and shall take a value of zero in relevant year commencing 1 April 2006, and shall be calculated in accordance with the following formula in subsequent relevant years:

$$RDC_t = RDO_t + RDAdd_t - RDDep_t$$

where

$RDAdd_t$ means the addition to the revenue driver RAV in relevant year t and shall be calculated in accordance with the formula in paragraph 11 of this condition.

$RDRet$ means the pre-tax rate of return expressed in real terms allowed on the revenue driver RAV and, for the purposes of this condition, shall take a value of 0.0625 for all relevant years.

$RDGAV_t$ means the cumulative gross value of the Revenue driver RAV, in 2004/05 prices, as at 31 March in relevant year t-1 and shall be calculated in accordance with the following formula:

$$RDGAV_t = \sum_{t-1} RDAdd_t$$

RG_{t-1} means the cumulative volume of relevant generation which has been connected by 31 March of relevant year t-1

12. The term $RDAdd_t$ shall be calculated in accordance with the following conditions:

If $YAT_t = 0$, then

$$RDAdd_t = \Sigma_c \{ (RDCDCpx_{c,t} - RDCDCpx_{c,t-1}) * 0.75 \} + (DRD_{ct} * 0.25)$$

If $YAT_t = 1$, then

$$RDAdd_t = \{ (RG_{t-1} - 1734) / (RG_{t-1} - RG_{t-2}) \} * \Sigma_i \{ \{ (RDCLCpx_{i,t} - RDCLCpx_{i,t-1}) * 0.75 \} + (MWCon_{it} * LRD * 0.25) \} + \Sigma_c \{ (RDCDCpx_{c,t} - RDCDCpx_{c,t-1}) * 0.75 \} + (DRD_c * 0.25)$$

If $YAT_t > 1$, then

$$RDAdd_t = \Sigma_i \{ \{ (RDCLCpx_{i,t} - RDCLCpx_{i,t-1}) * 0.75 \} + (MWCon_{it} * LRD * 0.25) \} +$$

$$\Sigma_c \{ (RDCDCpx_{c,t} - RDCDCpx_{c,t-1}) * 0.75 \} + (DRD_c * 0.25)$$

where

YAT_t is a flag variable which takes a value of 1 (one) for the relevant year in which the threshold cumulative volume of relevant generation (xxxx megawatts) is first met and which advances by a value of 1 (one) each relevant year subsequently. Its purpose is to allow the revenue adjustment for that relevant year to be pro-rated in line with the proportion of the total change in relevant generation in that year formed of relevant generation in excess of the threshold volume.

$RDCLCpx_{i,t}$ means the cumulative capital expenditure, in 2004/05 prices, (adjusted for financing costs) incurred by the licensee prior to 1 April of year t in respect of local connection works to facilitate the connection of relevant generation for all projects i that became local RD qualifying projects prior to 1 April of year t, and shall be calculated in accordance with the formula in paragraph 12.

$RDCLCpx_{i,t-1}$ is equal to the value of $RDCLCpx_{i,t}$ for the preceding relevant year.

local RD qualifying project means local connection works being undertaken by the licensee after the point at which the volume of relevant generation is equal to or exceeds xxxx megawatts to facilitate the connection of relevant generation where the licensee has, prior to 1 April of relevant year t, committed to spend not less than

25% of the capital expenditure it estimates, using its best endeavours, will be incurred in completing the set of relevant local connection works.

$MWCon_t$ means the increase in relevant generation during relevant year t-1.

LRD shall take the value £[32,000] (in 2004/05 prices)

$RDCDCpx_{c,t}$ means the cumulative capital expenditure in 2004/05 prices (adjusted for financing costs) incurred by the licensee prior to 1 April of relevant year t in respect of deep reinforcement works consistent with accommodating relevant generation in the areas specified in table 1 below where the associated volume of capacity (MW) formed of deep RD qualifying projects in each of the specified areas is equal to or greater than the thresholds specified in table 1, and shall be calculated in accordance with the formula in paragraph 13.

Table 1

	Areas	Threshold (total connected MW)	DRD_c (£m, 2004/05 prices)
1	North of North West boundary	1850	£52m
2	North of North of Beaully boundary	300	£47m
3	South of Port Ann within the South West zone	85	£89m
4	North of Inveraray within the South West zone	105	£52m

$RDCDCp_{x_{c,t-1}}$ is equal to the value of $RDCDCp_{x_{c,t}}$ for the preceding relevant year;

DRD_c shall take the corresponding value (in 2004/05 prices) in Table 1 above in respect of each specified area c.

13. $RDCLCp_{x_{it}}$ shall be calculated in accordance with the following formula:

$$RDCLCp_{x_{it}} = \sum_s \sum_i \{(1/PIAG_s) * \{RDALCp_{x_{i,s}} * (PIAG_T/PIAG_s)\}\} * \{(1 + RDRet) ^ (T-S)\}$$

where

$RDALCp_{x_{is}}$ means the capital expenditure incurred by the licensee during relevant year s (where s represents each relevant year prior to relevant year t) in respect of local connection works to facilitate the connection of relevant generation for all projects i that became qualifying projects prior to 1 April of relevant year t.

T shall take a value equal to the year in which relevant year t starts, e.g. for relevant year 2007/08 the value of T shall be 2007, and

S shall take a value equal to the year in which relevant year s starts (where s shall represent each relevant year prior to relevant year t).

PIAG_t shall be calculated in accordance with the following formula:

$$PIAG_t = \{1 + (RPI_t * 0.01)\} * PIAG_{t-1}$$

where

For relevant year commencing on 1 April 2004, PIAG_t shall take a value on 1 (one), and

RPI_t has the meaning given in paragraph [] of special condition []

14. RDCDCp_{x_{c,t}} shall be calculated in accordance with the following formula:

$$RDCDCp_{x_{c,t}} = \sum_s \sum_c \{(1/PIAG_s) * \{RDADCp_{x_{c,s}} * (PIAG_T/PIAG_s)\}\} * \{(1 + RDRet) ^ (T-S)\}$$

where

RDADCp_{x_{c,s}} means the annual capital expenditure incurred by the licensee during relevant year s in respect of deep reinforcement works consistent with accommodating relevant generation in the areas specified in table 1 above where the associated volume of capacity (MW) formed of deep RD qualifying projects in each of the specified

areas is equal to or greater than the threshold for each circumstance c specified in Table 1.

deep RD qualifying project means local connection works being undertaken by the licensee to facilitate the connection of relevant generation in one of the areas specified in Table 1 above where the licensee has, prior to 1 April of year t , committed to spend not less than 25% of the capital expenditure it estimates, using its best endeavours, will be incurred in completing the set of relevant local connection works.

T shall take a value equal to the year in which formula year t starts, e.g. for formula year 2007/08 the value of T shall be 2007, and

S shall take a value equal to the year in which formula year s starts (where s shall be all formula years up to but including formula year t).

$PIAG_t$ shall have the meaning in paragraph [12] above.

Part 3 – Calculation of charge restriction adjustments arising from the innovation funding incentive scheme

15. The purpose of this condition is to provide for adjustments to maximum allowed revenue to reflect performance of the licensee in relation to its investment in innovation under the Innovation Funding Incentive (IFI) scheme.

16. For the purposes of paragraph 1, IFI_t , is derived for the relevant year t from the formula:

$$IFI_t = ptri_t * (\min(IFIE_t, (\max((£500,000 + KIFI_t), ((0.005 * (PR_t + TIRG_t)) + KIFI_t))))))$$

Where:

$IFIE_t$ means the eligible expenditure for the relevant year t as reported in the IFI annual report for that year.

PR_t means the base regulated transmission revenue in year t as determined in paragraph 3 of special condition J2.

$TIRG_t$ means the annual revenue allowance in year t as determined in special condition J3.

$ptri_t$ 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.

$KIFI_t$ 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:

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

Where, for the year commencing 1 April 2007, $KIFI_t$, shall be zero

17. 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 4 - adjustment to restriction of transmission charges due to SF₆ incentive

18. The provisions of part 4 of this condition shall be dormant and shall not take effect until such time as directed by the Authority.
19. This condition defines the value of SFI_t, which is a term that forms part of the licensee’s revenue restriction.
20. 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 (SF₆) incentive scheme.

21. For the purposes of paragraph 1, SFI_t , shall where $ALK_t < TLK_t$ be calculated in accordance with the following formula:

$$SFI_t = SFIR_t \times PR_t$$

otherwise: SFI_t shall take the value zero (0).

Where:

$SFIR_t$ means the SF_6 incentive rate, which shall take the value notified to the licensee in the direction referred to in paragraph 17.

PR_t means the licensee's base transmission regulated revenue, as defined in paragraph 3 of special condition J2

ALK_t means the actual leakage rate of SF_6 gas in relevant year t as a percentage of inventory of SF_6 gas as reported by the licensee pursuant to the regulatory instructions and guidance issued in accordance with standard condition B16

TLK_t means the target leakage rate of SF_6 gas in relevant year t as a percentage of inventory of SF_6 and shall take the values in the table below:

Relevant year t	2007/08	2008/09	2009/10	2010/11	2011/12
TLK_t	□	□	□	□	□

22. 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_6 methodology statement

to be approved by the Authority, setting out the methodology by which the licensee will determine the leakage rate of SF₆ gas, required for the calculation of the actual leakage rate of SF₆ gas, ALK_t, and the target leakage rate of SF₆ gas, TLK_t.

23. Unless the Authority otherwise directs within 2 months of the date specified in paragraph 21, the licensee shall take all reasonable steps to apply the methodology set out in the statement in calculating the leakage rate of SF₆ gas in relation to calculating the actual leakage rate of SF₆ gas, ALK_t, and the target leakage rate of SF₆ gas, TLK_t.
24. Before revising the methodology referred to in paragraph 21 the licensee shall submit to the Authority a copy of the proposed revisions to the methodology.
25. Unless the Authority otherwise directs within 1 month of the Authority receiving any proposed revisions to the methodology under paragraph 23, the licensee shall take all reasonable steps to apply the methodology revised in accordance with such proposed revisions.
26. Where:
 - a. the licensee considers that any event on the licensee's transmission system that causes leakage of SF₆ 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 actual leakage of SF₆ gas and the value of ALK_t in relevant year t shall be adjusted as specified in that direction.

27. For the purpose of paragraph 25, 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 SF₆ and to mitigate its effect (both in anticipation and subsequently).

28. A direction under paragraph 25 shall not have effect unless, before it is made, the Authority has given notice to the licensee:

- e. setting out the terms of the proposed direction;
- f. stating the reasons why it proposes to issue the direction; and
- g. 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.

29. For the purpose of paragraph 25, 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 SF₆ 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.

30. Without prejudice to paragraph 28, 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 SF₆ gas at a particular site.

Part 5 – Adjustment to the Restriction of Transmission Charges in respect of the Capital and Operating Expenditure Incentive Mechanisms

31. For the purposes of paragraph 1, RCI_t is derived for the relevant year t from the formula:

$$RCI_t = ARCI_t \times PIT_t$$

where:

$ARCI_t$ means the allowance, in 2004/05 prices, made by the Authority in respect of rolling incentive revenues and shall take the value given in the table below:

Relevant year t commencing on 1 April	2007	2008	2009	2010	2011
$ARCI_t$	£0.4 million	£0.2million	-£0.1 million	Nil	Nil

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 given in paragraph 2 of special condition J4.

Special Condition J6: Restriction of transmission charges: adjustments

1. If, in respect of any relevant year, the regulated transmission revenue exceeds the maximum allowed revenue by more than 3 per cent 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 services, the revenue from which is regulated under Special Condition J2 (Restriction of transmission charges), unless it has demonstrated to the reasonable satisfaction of the Authority that the regulated transmission revenue in that next following relevant year would not be likely to exceed the maximum allowed revenue in that same relevant year.
2. If, in respect of any two successive relevant years, the sum of the amounts by which the regulated transmission revenue has exceeded the maximum allowed revenue is more than 4 per cent of the maximum allowed revenue for the second of these relevant years, then in the next following relevant year the licensee shall, if required by the Authority, adjust its charges for the provision of transmission services, the revenue from which is regulated under the Special Condition J2 (Restriction of transmission charges), such that the regulated transmission revenue would not be likely, in the judgment of the Authority, to exceed the maximum allowed revenue in that next following relevant year.
3. If, in respect of any two successive relevant years, the regulated transmission revenue is less than 90 per cent of the maximum allowed 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 J2 (Restriction of transmission charges) 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 J7: Capital Expenditure Incentive and Safety Net

1. The purpose of this condition is to set out how the Capital Expenditure Incentive and Safety Net will operate.

Part 1: Capital Expenditure Incentive Revenue Adjustment

2. For the purposes of paragraph 3 of Special Condition J2 (Restriction of Transmission charges) 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:

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

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:

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 3 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 4 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 5 of this condition;

$ABCx_t$ means the base capital expenditure allowance in the relevant year t calculated in accordance with paragraph 6 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.

REVADJ means the cumulative total adjustment to revenue allowances (in present value terms in 2012/13) pursuant to Part 2 of Special Condition J5 (Incentive Payments) for relevant years commencing between 31 March 2007 and 2 April 2011 in respect of local connection works and deep reinforcement works that have been completed and commissioned.

LV_t means the change in the capital expenditure allowance for relevant year t as a consequence of actual volumes of generation being different from the deemed baseline values of these variables (BGC_t) for relevant year t , and shall be calculated in accordance with paragraph 5 of this condition, and as a consequence of deep reinforcement revenue drivers being triggered in full (i.e. when the works pertaining to the circumstances described in Table 1 of paragraph 12 of Special Condition J5 have been completed and commissioned).

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 Schedule C, as reported to the Authority pursuant to Standard Condition B15;

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
$RBCx_t$	[]	[]	[]	[]	[]

PIT_t shall take the same meaning as given in paragraph 2 of special condition J4 (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 Schedule C, as reported to the Authority pursuant to Standard Condition B15;

$ESCx_t$ 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 Part A of Schedule A and as reported to the Authority pursuant to Standard Condition B15;

- LC_{x_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 Standard Condition B15;
- 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 Standard Condition B15;
- 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.
- DC_{x_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, ABC_{x_t} shall be calculated in accordance with the following formula:

$$ABC_{x_t} = RABC_{x_t} \times PIT_t$$

where:

- RABC_{x_t} means the adjusted (to exclude capex remunerated through excluded services income and capitalised pensions contributions) base capital expenditure allowance for the relevant year t, given in 2004/05 prices, and shall, subject to paragraph [] of this condition, take the value given in the table below:

Relevant year commencing 1 April:	2007	2008	2009	2010	2011
RABC _{x_t}	[]	[]	[]	[]	[]

PIT_t shall take the same meaning as given in paragraph 2 of special condition J4 (Pass Through items);

7. The change in the capital expenditure allowance for relevant year t as a consequence of actual volumes of zonal generation being different from the deemed baseline volumes of zonal generation for relevant year t, and as a result of any deep reinforcement revenue drivers specified in Table 1 of paragraph 12 of Special Condition J5 being triggered in full), and shall be calculated in accordance with the following formula:

$$LV_t = [(UCA_1 \times 0.001 \times PIT_t) \times (GC_t - BGC_t)] + [(UCA_2 \times 0.001 \times PIT_t) \times (\text{Max}(0, (GC_t - TBGC_t)))]$$

where

GC_t [means the sum of connected generation capacity as at 1 April 2005 plus generation capacity that has connected to the network since that time and prior 1 April of relevant year t.]

BGC_t means the baseline megawatts of connected generation in the licensee's area and shall take the values in the table below:

	Formula year t commencing 1 April:				
	2007	2008	2009	2010	2011
BGC_t	[]	[]	[]	[]	[]

$TBGC_t$ means the baseline megawatts of connected generation at the end of the price control period, and shall take the value BGC_t for the relevant year commencing 1 April 2011.

UCA_1 shall take a value of £24,000; and

UCA_2 shall take a value of £8,000.

$DRevEnd$ shall take a value equal to the sum (in present value terms, in 2011/12) of the total cumulative revenue adjustment that has been made pursuant to part 2 of Special Condition J5 in respect of deep

reinforcement projects that have been completed and commissioned.

8. 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:
- a. Net additional local infrastructure as a result of the licensee constructing a 'firm' (i.e. SQSS compliant) connection as opposed to a 'non-firm' single circuit connection for new generation connections in circumstances where the relevant generator is requesting a connection capacity of less than 100 megawatts;
 - 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.

9. 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

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

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

11. 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.

- 12 For the purposes of paragraph 13, 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.

13. 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:
- (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).
14. The Authority may, acting reasonably, request any additional information in relation to paragraphs 10 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 being not less than 14 days from the date of the notice.
15. Where the Authority issues a request pursuant to paragraph 14, 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.
16. 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 Revenue set out in paragraph 3 of special condition J2 (Restriction on Transmission charges). 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 proposed reduction in base transmission revenue would take effect;
 - (c) the reasons why the Authority considers that the proposed reduction is appropriate in light of the information provided by the Licensee to the Authority pursuant to this condition;
 - (d) the date, being of no less than 28 days from the date of the notice, by which the Authority invites comments 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.
17. The Authority shall have regard to any representations made by the Licensee in response to the notice referred to in paragraph 18 before formally proposing the modification to the value of base transmission revenue in paragraph 3 of special condition J2 (Restriction of Transmission Charges) referred to in the notice pursuant to section 11 of the Act.

Special condition J8: Provision of information to the system operator

1. On or before 1 November of the relevant year $t-1$, the licensee shall notify the system operator of its best estimates for the amounts TSH_t and $TSHN_t$ in respect of the relevant year t , where:

TSH_t means an amount no more than $TO_t - BI_t - EXS_t$

$TSHN_t$ means an amount no more than BI_t

where

EXS_t means the connection charges, if any, which are remunerated under Special Condition J2 in respect of connections made after the grant of this licence and for the avoidance of doubt, such charges may include charges for the operation and maintenance of the relevant connection.

and where the aggregate of TSH_t , $TSHN_t$ and EXS_t is equivalent to the regulated transmission revenue of the licensee in relevant year t .

2. The licensee shall keep under review the estimates notified to the system operator pursuant to paragraph 1 and, if at any time, the licensee reasonably considers that the values of TSH_t , or $TSHN_t$ notified to the system operator will be significantly different from the estimates previously notified to the system operator, the licensee shall notify the system operator of the updated values for TSH_t or $TSHN_t$ as soon as reasonably practicable.
3. By 30 April of each relevant year t , the licensee shall provide the Authority with a statement showing the following:
 - a) the values of TSH_t and $TSHN_t$ notified to the system operator in the relevant year $t-1$ and the method of calculation including the values for EXS_t ;

- b) the aggregate amounts of the licensee's connection charges in relevant year t-1 which are remunerated under Special Condition J2, identifying separately amounts in relation to connections made prior to the grant of this licence and amounts in relation to connections made after the grant of this licence;
- c) the aggregate amount of the licensee's connection charges in relevant year t-1 which are not remunerated under Special Condition J2; and
- d) the aggregate amount of the licensee's charges in relevant year t-1 in respect of outage charges.

Special Condition J9 – Duration of charge Restriction Provisions

The charge restriction conditions 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) their application (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 pursuant to this Condition shall
 - (a) be in writing addressed to the Authority;
 - (b) specify the charge restriction conditions (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 charge restriction conditions 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 charge restriction conditions (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 charge restriction conditions (or any part or parts thereof) specified in the disapplication request and such report does not include a conclusion that the cessation of such transmission charge restriction 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 it written notice terminating the application of such charge restriction conditions (or any part or parts thereof) with effect from the disapplication date or a later date.

Special condition J10 Basis of transmission owner charges

1. The licensee shall as soon as practicable after this licence has come into force and, in any event, not later than such date as the Authority shall specify prepare a statement approved by the Authority setting out the basis upon which charges will be made
 - (a) for transmission owner services;
 - (b) for connection to the licensee's transmission system, such statement to be in such form and to contain such detail as shall be necessary to enable the system operator to make a reasonable estimate of the charges to which it would become liable for the provision of such services, and (without prejudice to the foregoing) including such of the information set out in paragraph 2 as is required by such paragraph to be included in the relevant statement; and
 - (c) for outage charges.
2. The statement referred to in paragraph 1 shall in respect of connections to the licensee's transmission system include:
 - (a) a schedule listing those items (including the carrying out of works and the provision and installation of electric lines or electrical plant or meters) of significant cost liable to be required for the purpose of connection (at entry or exit points) to the licensee's transmission system for which site specific charges may be made or levied and including (where practicable) indicative charges for each such item and (in other cases) an explanation of the methods by which and the principles on which such charges will be calculated;
 - (b) the methods by which and the principles on which site specific charges will be made in circumstances where the electric lines or electrical plant to be installed are (at the licensee's discretion) of greater size or capacity than that required;
 - (c) the methods by which and the principles on which any charges (including any capitalised charge) will be made for maintenance, replacement and repair required of

electric lines, electrical plant or meters provided and installed for making a connection to the licensee's transmission system;

(d) the methods by which and the principles on which any charges will be made for disconnection from the licensee's transmission system and the removal of electrical plant, electric lines and ancillary meters following disconnection; and

(e) such other matters as shall be specified in directions issued by the Authority from time to time for the purpose of this condition.

3. Site specific charges for those items referred to in paragraph 2 shall be set at a level which will enable the licensee to recover:

(a) the appropriate proportion of the costs directly or indirectly incurred in carrying out any works, the extension or reinforcement of the licensee's transmission system or the provision and installation, maintenance, replacement and repair or (as the case may be) removal following disconnection of any electric lines, electrical plant, meters or other items; and

(b) a reasonable rate of return on the capital represented by such costs.

4. In addition to, and without prejudice to, the licensee's obligations under paragraph 1, the licensee shall, upon being directed to do so in directions issued by the Authority from time to time for the purposes of this condition and within such period as shall be specified in the directions, prepare a statement or statements approved by the Authority providing that charges

(a) for transmission owner services;

(b) for connection to the licensee's transmission system; and

(c) for outage changes

will be made on such basis as shall be specified in the directions and such statement or statements shall be in such form and contain such detail as shall be necessary to enable the system operator to make a reasonable estimate of the charges to which it would become liable for the provision of such services and (without prejudice to the foregoing) including such information as shall be specified in the directions. Each statement prepared in accordance with this

paragraph shall, with effect from the date on which it is approved by the Authority or such later date as the Authority shall specify, replace the corresponding statement prepared by the licensee in accordance with paragraph 1 or, as the case may be, this paragraph (as from time to time revised in accordance with paragraph 5) which is in force at such date and the licensee shall, with effect from such date make charges in accordance with the statement (as from time to time revised in accordance with paragraph 5) which has replaced such corresponding statement.

5. The licensee may periodically revise the statements in accordance with paragraphs 1 and 4 and shall, at least once in every year this license is in force, make any necessary revisions to such statements in order that the information set out in the statements shall continue to be accurate in all material respects.
6. The licensee shall send a copy of the statements prepared in accordance with paragraphs 1 and 4, and of each revision of such statements in accordance with paragraph 5, to the Authority. Each such revision shall require to be approved by the Authority and shall not become effective until approved by the Authority.
7. The licensee shall give or send a copy of the statements prepared in accordance with paragraphs 1 and 4 or (as the case may be) of the latest revision of such statements in accordance with paragraph 5 approved by the Authority pursuant to such paragraph to any person who requests a copy of such statement or statements.
8. The licensee may make a charge for any statement given or sent pursuant to paragraph 7 of an amount reflecting the licensee's reasonable costs of providing such a statement which shall not exceed the maximum amount specified in directions issued by the Authority for the purposes of this condition

Special Condition J11: Allowances 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 charge restriction conditions 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 its duties under the Act) by means of directions:
 - (a) suspend or modify for the unexpired term of the security period the charge restriction conditions or any part or parts thereof; or
 - (b) introduce for the unexpired term of the security period new charge restriction conditions;

in either case, so as to make such provision as in the opinion or estimation of the Authority is requisite or appropriate to enable the licensee to recover by means of a uniform percentage increase on all charges made in the course of the licence an amount estimated as being equal to the licensee's allowed security costs 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 the licensee's allowed security costs in that year or (in so far as not previously recovered) any previous year, by means of appropriate equitable increases in the charges made by the licensee in the course of the transmission business..
4. Paragraph 3 shall not apply in so far as such licensee's allowed transmission related security costs
 - (a) were otherwise recovered by the licensee; or
 - (b) were taken into account by the Authority in setting the charge restriction conditions by means of directions issued under paragraph 2.

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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 aggregate amounts charged under paragraph 3 on account of the licensee's allowed security costs; and
 - (b) the basis and calculation underlying the increases in charges made by the licensee in the course of the transmission business.
6. Where the Authority is satisfied that the licensee has recovered amounts in excess of the licensee's allowed security costs, the Authority may issue directions requiring the licensee to take such steps as may be specified to reimburse customers of the licensee for the excess amounts charged to them, and the licensee shall comply with any directions so issued.
7. No amounts charged by the licensee under this Condition (whether or not subsequently required to be reimbursed) shall be taken into account for the purpose of applying the charge restriction provisions of Special Condition J2 (Restriction of transmission charges).

8. In this Condition:

"allowed security cost"

means any cost allowed by the Authority (upon receipt of such information, including a certificate from the auditors, as the Authority may request) as being a cost which is directly attributable to any action taken or omitted to be taken by the licensee in its capacity as holder of the license for the purpose of complying with directions issued by the Secretary of State under Section 34(4) of the Act.

"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 it 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.

Special Condition L2: Transmission losses reporting

1. On or before 30 May in the relevant year t, the licensee shall provide to the Authority a transmission losses report, being a report which shall in relation to relevant years t-1 and t include in reasonable but not excessive detail:
 - (a) 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
 - (b) 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.

2. In paragraph 1, "transmission losses" means the units of electricity unaccounted for on the licensee's transmission system measured as being the difference between the units of electricity metered on entry to the system and the units of electricity metered on leaving the system.

Schedule A: Supplementary Provisions of the Charge Restriction Conditions**Part A: Excluded services**

1. There may be treated as excluded services provided by the transmission business such services in respect of which charges are made:
 - (a) which fall within paragraph 6; or
 - (b) which:
 - (i) do not fall within paragraph 2; and
 - (ii) may be determined by the licensee as falling under one of the principles set out in paragraphs 3 to 5.

2. No service provided as part of the transmission business shall be treated as an excluded service in so far as it relates to the provision of services remunerated under charges for transmission owner services in accordance with special condition J10 (Basis of transmission owner charges) including (without prejudice to the foregoing):
 - (i) the making available of transmission owner services
 - (ii) the carrying out of works for the installation of electric lines or electrical plant for the purpose of maintaining or upgrading the licensee's transmission system (not otherwise payable in respect of connections to the licensees' transmission system);
 - (iii) the carrying out of works or the provision of maintenance or repair in relation to the licensees transmission system for the purpose of enabling the licensee to comply with standard condition B12 (System Owner – Transmission Owner Code) and standard condition D3 (Transmission system security standard and quality of service), the Electricity Safety, Quality and Continuity Regulations 2002 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
- (iv) the provision, installation and maintenance of any meters, switchgear or other electrical plant ancillary to making available of transmission owner services.
3. The whole or an appropriate proportion (as the case may be) of the charges of the type described in special condition J10 (Basis of transmission owner charges) and borne by any person as connection charges in respect of connections made after the grant of this licence and not remunerated as part of the transmission owner services under special condition J2 may be treated as excluded services.
4. 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.
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 as a normal part of the transmission business remunerated under Special Condition J.
6. Services may be regarded as excluded services where the charges are:
- (a) the rental for transmission business assets hosting fibre-optic telecommunications systems and used by third parties; and
- (b) the net costs reasonably incurred by the licensee as a result of any outage change.
7. Where the Authority is satisfied that, in light of the principles set out in paragraphs 3 to 6 inclusive, any service treated as being or not being 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 other date as may be specified in the directions.

8. For the purpose of this Schedule an “outage change” is a change notified to the licensee by the system operator 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 the licensee (the “original change”), and

(b) such changes notified to the licensee by the system operator which:

- i) the licensee and the system operator 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 licensee by the system operator which the licensee and the system operator agree is not an outage change under this licence condition (a “non-chargeable outage change”).

8A Any revenues received by the licensee from the system operator in respect of a non-chargeable outage change shall not be regarded as excluded service revenues under this Schedule.

8B For the purposes of paragraph 8, “outage plan” and “week 49” shall have the same meanings as defined or used in the STC.

9. The charges referred to in paragraph 6(b) shall be those declared to the system operator by the licensee and which are agreed by the system operator, or where there is a failure to agree, as determined by the Authority following the provision by the licensee of such information as the Authority may reasonably request.

Schedule B. Terms used in the revenue restriction

B1 For the purpose of paragraph 1 of Special Condition J, the term PF_t in respect of the relevant year t shall be derived from the following table:

2005/6	£0
2006/7	£0
2007/8	£0 or such other amount as the Authority shall determine.

B2 For the purpose of paragraph 1 of Special Condition J, the term NRF_t in respect of the relevant year t shall be derived from the following table:

2005/6	£3,682,000
2006/7	£3,682,000
2007/8	£3,682,000 or such other amount as the Authority shall determine.

earlier years zero.

B3 For the purposes of paragraph 1 of Special Condition J, the term BI_t in respect of the relevant year t shall be derived from the following table

2005/6	£1,625,000
2006/7	£975,000. PIF_t + BIA_t

2007/8 £0 or such other amount as the Authority shall
determine

earlier years zero.

B3A BIA_t is to be derived from the following formula:

$$BIA_t = (BX - 2,274,000).PIF_t$$

where

BX means the total cost and/or expenses incurred by the licensee during the period 1 April 2002 to 31 March 2006 for the purposes of implementing BETTA (such costs having been adjusted by the RPI_t values for the relevant years t so as to express the relevant amounts in values appropriate to the relevant year commencing 1 April 2005) as determined by the Authority following the provision to it by the licensee of a BETTA implementation costs statement in accordance with paragraph B3B and such other information as the Authority may reasonably request.

B3B On or before 30 May 2006, the licensee shall furnish to the Authority a BETTA implementation costs statement containing:

- (a) the total costs and/or expenses incurred by the licensee during the period 1 April 2002 to 31 March 2006 for the purposes of implementing BETTA;
- (b) a breakdown of the total costs and/or expenses incurred by cost category and within each cost category, whether the cost was an internal or external cost;
- (c) a description of each cost category used in sub-paragraph (b);

- (d) an explanation of how the types of costs and/or expenses incurred in relation to each cost category was necessary or expedient to implement BETTA; and
- (e) where costs and/or expenses incurred have been apportioned between the activities undertaken by the licensee for the purposes of implementing BETTA and other business activities, the basis for the apportionment, attribution and/or allocation of these costs and/or expenses.

B3C The statement referred to in the preceding paragraph shall be:

- (a) accompanied by a report prepared by independent auditors which provides that:
 - i) in their opinion, the BETTA implementation costs statement fairly presents the total costs and/or expenses incurred by the licensee during the period 1 April 2002 to 31 March 2006 for the purposes of implementing BETTA;
 - ii) the breakdown of the total costs and/or expenses incurred by cost category and within each cost category whether the cost was an internal or external cost;
 - iii) the description of each cost category;
 - iv) the explanation of how the types of costs and/or expenses incurred in relation to each cost category was necessary or expedient to implement BETTA; and
 - v) the basis apportionment, attribution and/or allocation of costs and/or expenses between activities undertaken by the licensee for the purposes of implementing BETTA and other business activities; and
- (b) certified by a person with authority to do so on behalf of the licensee that to the best of his knowledge, information and belief, having made all

reasonable enquiries, no cost is included in the statement other than costs permitted under B3B to be so included.

B4 For the purpose of paragraph 1 of Special Condition J, the term EC_t in respect of the relevant year t shall be derived from the following table:

2005/6	-£8,123,000
2006/7	-£7,473,000. PIF _t
2007/8	-£7,473,000.PIF _t or such other amount as the Authority shall determine

earlier years zero.

B5 For the purpose of paragraph 1 of Special Condition J, the term CC_t in respect of the relevant year t shall be derived from the following:

2005/6	£1,516,000
2006/7	£1,516,000.PIF _t
2007/8	£1,516,000.PIF _t or such other amount as the Authority shall determine

earlier years zero.

B6 For the purpose of paragraph 1 of Special Condition J, the term EIA_t in respect of the relevant year t shall be derived from the following table:

2005/6	£390,000
2006/7	£379,000
2007/8	£379,000 or such other amount as the Authority shall determine

earlier years zero.

SCHEDULE C: SUPPLEMENTARY PROVISIONS TO SPECIAL CONDITION J3

Beaully-Denny

Pre construction, contingency and construction costs

project costs (£ 000) 2004 prices	t=p	t=0	t=1	t=2	t=n
Forecast pre-construction and contingency costs (CFTIRG _t)	5,142	n/a	n/a	n/a	n/a
Forecast Construction Costs		50,200	100,000	85,000	10,000
Average asset value during construction period (FTIRGC _t)	n/a	25,100	98,945	186,435	224,300
Depeciation during Construction (FTIRGDepn)			2,510	7,510	11,760

Post construction revenue

Project costs (£ 000) 2004 prices	t=n+1	t=n+2	t=n+3	t=n+4	t=n+5
Opening RAV (ETIRGORAV)	223,420				
Dep _t ⁱ	11,171	11,171	11,171	11,171	11,171
Average asset value during efficiency period (ETIRGC _t)	217,835	206,664	195,493	184,322	173,151

Sloy

Pre construction, contingency and construction costs

project costs (£ 000) 2004 prices	t=p	t=0	t=n
Forecast pre-construction and contingency costs (CFTIRG _t)	100	n/a	n/a
Forecast Construction Costs		1,500	3,425
Average asset value during construction period (FTIRGC _t)	n/a	1,500	4,925
Depeciation during Construction (FTIRGDepn)			150

Post construction revenue

Project costs (£ 000) 2004 prices	t=n+1	t=n+2	t=n+3	t=n+4	t=n+5
Opening RAV (ETIRGORAV)	6,850				
Dep _t ⁱ	343	343	343	343	343
Average asset value during efficiency period (ETIRGC _t)	6,679	6,336	5,994	5,651	5,309

Output measures

Beaulieu-Denny

Project scope		Capability as at 31 March 2005		Forecast capability prior to construction start date		Forecast capability post construction	
		Post fault continuous at 50c rated Temp MVA (Amps)	Pre fault continuous at 50c rated temp MVA (Amps)	Post fault continuous at 50c rated Temp MVA (Amps)	Pre fault continuous at 50c rated temp MVA (Amps)p	Post fault continuous at 90c rated Temp MVA (Amps)	Pre fault continuous at 90c rated temp MVA (Amps)
Line upgrade	Winter	132 (580)	111 (488)	132 (580)	111 (488)	-	-
	Summer	106 (465)	89 (392)	106 (465)	89 (392)	-	-
EF1 - 132Kv	Winter			132 (580)	111 (488)	-	-
	Summer			106 (465)	89(392)	-	-
EF2 - 132 kV	Winter						
	Summer						
400 kV	Winter	-	-	-	-	2810 (4050)	2360 (3400)
	Summer	-	-	-	-	2510 (3620)	2110 (3040)
275kV	Winter	-	-	-	-	1930 (4050)	1620 (3400)
	Summer	-	-	-	-	1730 (3620)	1450 (3040)

Sloy

Project scope	Capability as estimated at 31 March 2005 MVA	Forecast capability prior to construction start date as estimated at 31 March 2005 MVA	Forecast capability post construction as estimated MVA
South West reinforcement	220	220	380

SCHEDULE 1
SPECIFIED AREA

Great Britain

SCHEDULE 2**REVOCATION**

1. The Authority may at any time revoke the licence by giving no less than 30 days' notice (24 hours' notice, in the case of a revocation under sub-paragraph 1(g)) 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 standard 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 in writing 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 in writing 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 ceases to carry on the transmission business;
- (f) if the licensee has not commenced carrying on the transmission business within 5 years of the date on which the licence comes into force;
- (g) 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 1986 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
- (h) 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(g)(i), section 123(1)(a) of the Insolvency Act 1986 shall have effect as if for "£750" there was substituted "£100,000" 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(g)(i) if any such demand as is mentioned in section 123(1)(a) of the Insolvency Act 1986 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 1.

