

## Appendix 1 – Change Marked Licence Text

This document should be read in conjunction with National Grid's main response to Ofgem's consultation 'Transmission Price Control Review: Draft licence modifications' (ref 197/06) dated 15<sup>th</sup> November 2006.

### NGG NTS Licence Conditions

#### Capacity substitution obligation

1.1. In relation to any release of **obligated incremental** entry capacity above the baselines the licensee shall provide to **the Authority** ~~Ofgem~~ in writing **with** a calculation of all ~~[[reasonable]]~~ substitution of unsold **baseline** capacity from existing entry points that could be used to provide the ~~incremental~~ obligated **incremental** entry capacity.

1.2. The information provided shall take the form of a statement for each entry point **stating** ~~documenting~~ the amount **in [units]** of capacity **that could [reasonably] be** transferred to that entry point. Unless the Authority otherwise directs the licensee in writing within ~~[[X]]~~ days of receiving this statement, the term SOENAC ~~shall~~, for each entry point *i*, take the value from ~~this~~ **the** statement for the corresponding entry point *i*.

#### Capacity transfer facilitation obligation

1.3. Before any auction or other mechanism for the release of **baseline entry capacity, and/or obligated incremental** entry capacity, the licensee shall respond *[is a formal offer required?]* to any request from a **relevant** shipper for a capacity transfer rate for use *[meaning of "use" needs clarifying]* in that auction. A capacity transfer rate shall be a rate by which **baseline** entry capacity bought at a specified entry point (the "**giving point**") can be utilised at a different specified entry point (the "**receiving point**"). *[Need to specify whether it is a physical or financial transfer rate, time by which a request must be made to give licensee opportunity to calculate the rate and whether there are exceptions which may justify a transfer rate not being available/possible. Also need to split out the definitions of "giving point" and "receiving point" so that they apply to all relevant provisions – see 1.12 below]*

1.4. Where a **relevant** shipper has been provided with a capacity transfer rate by the licensee, any entry capacity purchased by that **relevant** shipper at the giving point can be transferred, within [a specified period relating the date of the relevant auction], at the **relevant** shipper's discretion, from the giving point to the receiving point at the specified capacity transfer rate.

1.5. ~~In providing the~~Any capacity transfer rate specified by the licensee shall ~~ae~~be derived in accordance with the methodology established in accordance with paragraph 1.6.

1.6. ~~By [[date]] the~~The licensee shall by ~~[[date]]~~ establish a methodology (the “capacity transfer rate methodology”) by which it will determine the method of calculation for capacity transfer rates. The methodology shall be designed in a manner best calculated to meet the following objectives:

~~▪ Compliance with the methodology will reflect the physical possibilities of transferring capacity across the network;~~

a) ~~The methodology will facilitate~~Ensuring the transfer of capacity between the giving point and receiving point is effected in a manner which is compatible with the physical capability of the transportation system to which this licence relates to accommodate the transfer of capacity between the giving entry point and the receiving entry point;

~~▪b) Facilitating~~ effective competition between ~~gas~~relevant shippers, ~~gas~~ and between suppliers; ~~and and other parties associated with the gas industry, and~~

~~▪c) The methodology will be designed in such a way as to allow~~Allowing any ~~reasonable~~relevant ~~gas~~-shipper to make ~~ana~~ a reasonably accurate estimate of how the capacity transfer rate methodology will be applied.

1.7. The licensee shall, if so directed by the Authority and in any event at least once a year, review the ~~statement~~capacity transfer rate methodology in consultation with ~~gas~~relevant shippers and other interested parties likely to be affected by it and allow each of them a period of not less than 28 days in which to make representations.

1.8. The licensee shall ~~keep the capacity transfer rate methodology under review in order from time to time make revisions to its established methodology~~to ensure that it meets the ~~relevant~~objectives set out in paragraph 1.6 *[This process should be consistent with the review mechanisms for other similar documents]*. However the licensee shall not, without written consent from the Authority, make any revisions to the methodology unless it has:

~~▪a) Sent~~sent a copy of the proposed revisions to the Authority, ~~gas~~relevant shippers ~~who are signatories to the licensee's network code,~~ and any other party who requests one;

~~▪b) Consult~~consulted interested parties and ~~allow~~allowed them a period of not less than 28 days in which to make representations;

- c) ~~Within~~ **within** 7 days of the close of the consultation ~~submit~~ **referred to in sub-paragraph 1.8(b) submitted** to the Authority a report setting out: ~~the revisions originally proposed; the representations (if any) made to the licensee; and any change to the revisions, and~~
- (i) **the revisions originally proposed;**
  - (ii) **the representations (if any) made to the licensee; and**
  - (iii) **any change to the revisions, and**
- ~~d) Not receive~~ **received** a direction from the Authority that it should not proceed with the revisions.

1.9. The licensee shall, by [ ] each year, provide the Authority with a statement indicating the licensee's views on the application and implementation of the **capacity transfer rate** methodology setting out its views on the extent to which the ~~objectives have been met~~ **licensee has complied with the capacity transfer rate methodology.**

1.10. The licensee may ~~make a charge for providing a~~ **relevant shipper requesting** transfer capacity **rate for the provision of such** rate and such a charge shall not to exceed the reasonable costs incurred by the licensee in making such calculations and carrying out such modelling as is necessary.

1.11. The licensee may ~~make a charge for~~ any **person requesting a** copy of ~~a statement, the~~ **capacity transfer rate methodology or any** report or revision ~~sent~~ **prepared** pursuant to this condition ~~of~~ an amount reflecting the licensee's reasonable costs of providing such a copy which shall not exceed the maximum amount specified in directions issued by the Authority for the purposes of this condition.

#### **Capacity trade facilitation obligation**

1.12. The licensee shall respond to any **joint** request from any two **relevant** shippers for a capacity ~~transfer trade~~ rate to allow ~~the~~ **baseline** entry capacity **and/or obligated incremental entry capacity** at one entry point held by one of the **relevant** shippers to be ~~transferred traded with to~~ the other **relevant** shipper at a different entry point at a particular date or **for a particular** period. A capacity ~~transfer trade~~ rate shall be a rate by which **baseline entry capacity and/or obligated incremental** entry capacity bought **by one relevant shipper** at a specified entry point (the "**giving point**") can be utilised at a different specified entry point (the "**receiving point**") **by the other relevant shipper. [Need to split**

*out the definitions of “giving point” and “receiving point” so that they apply to all relevant provisions – see 1.3 above.]*

1.13. The capacity ~~transfer~~trade rate may be subject to a time limited period ~~during-in~~ respect of which it ~~is~~ will be valid. ~~Said time limited~~Any such period shall be as long as reasonably practicable.

1.14. Where ~~a pair of two~~ relevant shippers have been provided with a capacity ~~transfer~~trade rate in respect of the trade of baseline entry capacity and/or obligated incremental entry capacity between them and the relevant shippers both ~~indicate~~notify to the licensee, in writing and within the time limited period (if any) specified, that they wish to ~~transfer~~trade an amount of baseline entry capacity and/or obligated incremental entry capacity at that rate, the licensee shall effect the ~~transfer~~trade of such entry capacity notified to the licensee.

In providing the capacity ~~transfer~~trade rate specified the licensee shall act in accordance with the capacity transfer rate methodology established ~~–~~ under paragraph 1.6 above.

## NGET Licence Conditions

### Amended Transmission Network Reliability Incentive - proposed transmission licence drafting: Special Condition AA5F

1. For the purpose of paragraph 1 of Special Condition AA5A Part 1, the term  $RI_t$  shall be derived from the following formula:

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

where:

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

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

If  $RIP_y < RILT_y$ :

$$RAF_y = 0$$

If  $RIP_y > RIUT_y$ :

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

Otherwise:

$$RAF_y = 0$$

where:

$RILT_y$  is the lower incentivised loss of supply volume target in respect of incentive period y, which has the value as specified in the following table:

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

	<del>2007/08</del> April 2006 to 31 March 2007	<del>2008/09</del> April 2007 to 31 March 2008	<del>2009/10</del> April 2008 to 31 March 2009	<del>2010/11</del> April 2009 to 31 March 2010	<del>2011/12</del> April 2010 to 31 March 2011
Incentive Period y					
RILT <sub>y</sub> (MWh)	□	□	□	□	□

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

Relevant year t	2007/08	2008/09	2009/10	2010/11	2011/12
	1 April 2006 to 31 March <del>2007</del> 8	1 April 2007 to 31 March <del>2008</del> 9	1 April 2008 to 31 March <del>2009</del> 0	1 April 2009 to 31 March <del>2010</del> 4	1 April 2010 to 31 March <del>2011</del> 2
Incentive Period y					
RIUT <sub>y</sub> (MWh)	□	□	□	□	□

RIDPA<sub>y</sub> is the maximum downside percentage adjustment in respect of incentive period y, which has the value as specified in the following table:

Relevant year t	2007/08	2008/09	2009/10	2010/11	2011/12
	1 April 2006 to 31 March <del>2007</del> 8	1 April 2007 to 31 March <del>2008</del> 9	1 April 2008 to 31 March <del>2009</del> 0	1 April 2009 to 31 March <del>2010</del> 4	1 April 2010 to 31 March <del>2011</del> 2
Incentive Period y					
RIDPA <sub>y</sub> (MWh)	□	□	□	□	□

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

Relevant year t	2007/08	2008/09	2009/10	2010/11	2011/12
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Incentive Period y	1 April 2006 to 31 March <del>2007/2007/0</del> 8	1 April 2007 to 31 March <del>2008/2008/0</del> 9	1 April 2008 to 31 March <del>2009/2009/1</del> 0	1 April 2009 to 31 March <del>2010/2010/1</del> 4	1 April 2010 to 31 March <del>2011/2011/1</del> 2
<b>RICOL<sub>y</sub> (MWh)</b>	[]	[]	[]	[]	[]

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

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

2. For the purposes of this Special Condition “incentivised loss of supply event” shall mean any event on the licensee’s transmission system that causes electricity not to be supplied to a customer subject to the following exclusions:
  - (a) any such event that causes electricity to not be supplied to 3 or less directly connected parties;
  - (b) any unsupplied energy resulting from a shortage of available generation;
  - (c) any unsupplied energy resulting from a de-energisation or disconnection of a user’s equipment under an event of default as defined in the CUSC;
  - (d) any unsupplied energy resulting from a user’s request for disconnection in accordance with in the Grid Code; and
  - (e) any unsupplied energy resulting from emergency de-energisation by a user as defined in the CUSC; and
3. For the purpose of paragraph 2 a “directly connected party” is any party with a direct connection to the licensee’s transmission system with the exception of any connection to a distribution system.
4. Where:
  - (a) the licensee considers that any event on the licensee’s transmission system that causes electricity not to be supplied to a customer has been wholly or partially caused by an exceptional event;

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

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

5. For the purpose of paragraph ~~4~~, the adjustment directed by the Authority shall be based on the extent to which the Authority is satisfied that the licensee had taken reasonable steps to prevent the event having the effect of interrupting supply and to mitigate its effect (both in anticipation and subsequently).

6. A direction under paragraph ~~8-4~~ shall not have effect unless, before it is made, the Authority has given notice to the licensee:

- a) setting out the terms of the proposed direction;
- b) stating the reasons why it proposes to issue the direction; and
- c) specifying the period (not being less than 14 days from the date of the notice) within which the licensee may make representations or objections

and, **if the licensee makes representations or objections within the time limit set out in sub-paragraph (c) above, such direction shall not have effect until after** the Authority has considered such representations or objections and given reasons for its decision.

7. For the purpose of paragraph 4, an “exceptional event” means an event or circumstance that is beyond the reasonable control of the licensee and which results in or causes electricity not to be supplied to a customer and includes **(without limitation)** 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 [] faults being recorded by the licensee on the licensee’s

transmission system in any 24 hour period, governmental restraint, Act of Parliament, **any** other legislation, bye law or directive (not being any order, regulation or direction under section 32, 33, 34 and 35 of **the Act) or decision of a Court of competent authority or the European Commission or any other body having jurisdiction over the activities of the licensee or a customer** ~~the Electricity Act 1989~~) provided that lack of funds shall not be interpreted as a cause beyond the reasonable control of the licensee.

**SF6 Incentives - Special condition [ ]: adjustment to restriction of transmission charges due to SF6 incentive**

1. This condition defines the value of  $SF_t$ , which is a term that forms part of the licensee's revenue restriction.
2. The purpose of this condition is to provide for adjustments to allowed revenue to reflect performance of the licensee in relation to its Sulphur Hexafluoride ( $SF_6$ ) incentive scheme.
3. For the purposes of paragraph [ ] of special condition [ ],  $SF_t$  is derived for the relevant year t from the formula:

Where:

If  $ALK_t < TLK_t$ :

$$SF_t = [\pounds]$$

If  $ALK_t \geq TLK_t$ :

$$SF_t = [\pounds]$$

Where:

$ALK_t$  is 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 RIGS issued in accordance with** [standard condition B16]

$TLK_t$  is 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:

	2007/08	2008/09	2009/10	2010/11	2011/12
$TLK_t$	□	□	□	□	□



## Innovation Funding Incentive - Special condition [ ] – Calculation of charge restriction adjustments arising from the innovation funding incentive scheme

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

$$IFI_t = ptri_t * (\min(IFIE_t, ((\square * PR_t) + KIFI_t)))$$

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 regulated transmission revenue in **relevant** year t as defined in **accordance with** special condition AA5A

$ptri_t$  is the pass-through factor applicable for the relevant year t as specified below **[this term is not defined below as stated]**

$KIFI_t$  is the carry forward in relation to the **innovation funding** incentive scheme as set out in the IFI annual report for relevant year t-1, and is calculated from the following formula:

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

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

3. For the purposes of the incentive scheme, the eligible IFI internal expenditure that qualifies as eligible IFI expenditure in the relevant year t ( $IFIIE_t$ ) shall be the amount determined in the following formula:

$$IFIIE_t \leq z * IFIE_t$$

Where:

$IFIIE_t$  is the eligible IFI internal expenditure that qualifies as eligible IFI expenditure for the relevant year t

z shall take the value, except insofar as the Authority consents otherwise, and subject to any conditions the Authority may at its discretion attach to such consent, of [].

4. For the purposes of this condition:

“eligible IFI internal expenditure” means the amount of eligible IFI expenditure spent or accrued on the internal resources of the licensee; and

“eligible IFI expenditure” means the amount of expenditure spent or accrued by the licensee in respect of eligible IFI projects.

***[This condition needs to be made consistent with the equivalent DNO licence condition, including definitions of “IFI annual report” and “eligible IFI projects”]***

**Special Condition AA5A – Part 2 (ii): Balancing services activity revenue restriction on internal costs**

13. The licensee shall use its best endeavours to ensure that in the relevant year t the revenue derived by the licensee from the balancing services activity associated with internal costs (being all balancing services activity revenue in relevant year t with the exception of any revenue in relevant year t accounted for under special condition AA5A Part 2(i) paragraph 5) shall not exceed an amount calculated in accordance with the following formula:

$$BXint_t = (SOint_t [NPI])$$

*[delete this formula and replace with:*

$$BXint_t = SOint_t]$$

where:

**BXint<sub>t</sub>** means the balancing services activity revenue associated with internal costs in the relevant year other than any revenue in relevant year t accounted for under paragraph 5 of Part 2(i) special condition AA5A ~~and is derived from the following components:~~

**SOint<sub>t</sub>** ~~which~~ is the aggregate of all internal costs associated with the balancing services activity in respect of relevant year t, **and shall be derived** ~~calculated~~ in accordance with paragraph 14 of this special condition;

~~NPI~~ ~~means the NETA Profiling Index in respect of relevant year t calculated in accordance with paragraph B10 of Part B of Schedule A; and~~

14. For the purpose of paragraph 13, the term SOint<sub>t</sub> shall be derived from the following formula:

$$SOint_t = CSOC_t + IncPayInt_t + NSOC_t + IAT_t + T_t + P_t + ON_t + IONT_t$$

where:

- CSOC<sub>t</sub> means the aggregate of the incentivised internal costs associated with the balancing services activity in respect of relevant year t calculated in accordance with paragraph 15 of this condition.
- IncPayInt<sub>t</sub> means the incentive payment associated with the internal costs of undertaking the balancing services activity in respect of relevant year t, calculated in accordance with paragraph 16 of this special condition.
- NSOC<sub>t</sub> has the value set against relevant year t in the table in paragraph B8 in Part B of Schedule A and represents the allowed revenue in respect of the non-incentivised internal costs of the licensee in operating the licensee's transmission system during relevant year t, including costs in preparing for the introduction of the New Electricity Trading Arrangements **and of BETTA** but excluding non-domestic rates incurred by the licensee in operating the licensee's transmission supply during relevant year t *[rates issues are discussed in our main document]*.
- IAT<sub>t</sub> means, in respect of each relevant year t, the amount of any allowed income adjustment given by paragraph 19(b) below.

- T<sub>t</sub> means the tax allowance in respect of relevant year t as set out in the following table;

	<u>Relevant year</u>				
<u>Variable</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<u>T<sub>t</sub></u> <u>(£,million)</u>					

- P<sub>t</sub> means the pension cost allowance in respect of relevant year t as set out in the following table;

	<u>Relevant year</u>				
<u>Variable</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>

$P_t$   
(£,million)

- $ON_t$  has the value £1,000,000 for the relevant year t and represents an allowance for payments by the licensee in respect of outage changes.
- $IONT_t$  means, in respect of each relevant year t, the amount of any allowed income adjustments given by paragraph 25(b).

15. Determination of incentivised internal costs

For the purposes of paragraph 14, the term  $CSOC_t$  shall be derived from the following formula:

$$CSOC_t = CSOOC_t + CSOCEC_t$$

where:

- $CSOOC_t$  means the aggregate of the incentivised internal operating costs associated with the balancing services activity in respect of relevant year t.
- $CSOCEC_t$  means the aggregate of the incentivised internal capital expenditure associated with the balancing services activity in respect of relevant year t and calculated ~~in accordance with part (a) of this paragraph.~~ **as follows:**

~~a. For the purposes of this paragraph 15 the term  $CSOCEC_t$  shall be derived from the following formula~~

$$CSOCEC_t = CSOD_t + CSOR_t$$

where: ~~[formatting requires correction below]~~

$CSOD_t$  means the depreciation on the SO regulatory asset ~~\_\_\_\_\_~~ base in respect of relevant year t and is calculated as ~~\_\_\_\_\_~~ the regulatory asset base at 1 April in **each** relevant ~~\_\_\_\_\_~~ year t divided by 7; and

$CSOR_t$  means the return on the [average] SO regulatory asset base in respect of **each** relevant year t and is calculated as [ ]% of the [SO]regulatory asset base [in respect of year<sub>t</sub>][at rate of [ ]%]; and

## 16. Determination of incentive payments on internal costs

For the purposes of paragraph 14, the term  $\text{IncPayInt}_t$  shall be derived from the following formula:

$$\text{IncPayInt}_t = \left( \left[ (\text{ISF}_t(\text{IMOT}_t - \text{CSOOC}_t)) + (\text{ISF}_t(\text{IMCET}_t - \text{CSOCEC}_t)) \right] + \frac{1}{\text{NPI}_t^M} \left[ \sum (1 - \text{CSF}_{Mt}) (\text{CP}_{Mt} - \text{OS}_{Mt}) \right] \right)$$

**[Remove term NPI from the above formula]**

where:

$\text{ISF}_t$  which is a balancing services activity sharing factor in respect of relevant year  $t$ , and is calculated ~~in accordance with part (a) of this paragraph; and~~ as follows:

if  $\text{IMOT}_t > \text{CSOOC}_t$  then  $\text{ISF}_t = \text{IUSF}_t$  otherwise  $\text{ISF}_t = \text{IDSF}_t$ ; and

if  $\text{IMCET}_t > \text{CSCEC}_t$  then  $\text{ISF}_t = \text{IUSF}_t$  otherwise  $\text{ISF}_t = \text{IDSF}_t$ ;

where:

$\text{IUSF}_t$  is a balancing services activity upside sharing factor in respect of relevant year  $t$  and has the value specified in paragraph B7 in Part B of Schedule A.

$\text{IDSF}_t$  is a balancing services activity downside sharing factor in respect of relevant year  $t$  and has the value specified in paragraph B7 in Part B of Schedule A.

$\text{IMOT}_t$  has the meaning given below.

$\text{IMCET}_t$  has the meaning given below.

$\text{CSOOC}_t$  has the meaning given in paragraph 15.

$\text{CSOCEC}_t$  has the meaning given in paragraph 15.

$\text{IMOT}_t$  which is a target for the incentivised internal operating costs associated with the balancing services activity in respect of relevant year  $t$  and has the value specified for relevant year  $t$  in the table in paragraph B5 in Part B of Schedule A.

IMCET<sub>t</sub> which is a target for the incentivised internal capital expenditure associated with the balancing services activity in respect of relevant year t and has the value specified for relevant year t in the table in paragraph B6 in Part B of Schedule A.

~~CSOOC<sub>t</sub> has the meaning given in paragraph 15~~

~~CSOCEC<sub>t</sub> has the meaning given in paragraph 15~~

CSF<sub>Mt</sub> is the Contingency Provisions (as defined in the BSC from time to time) sharing factor in respect of each month M of relevant period t and has the value determined in accordance with paragraph B11 in Part B of Schedule A.

CP<sub>Mt</sub> is the sum of the Ad-Hoc Trading Charges (as defined in the BSC from time to time) payable by the licensee in respect of the Contingency Provisions (as defined in the BSC from time to time) in month M of the relevant period t.

OS<sub>Mt</sub> which is the Contingency Provisions (as defined in the BSC from time to time) offset in respect of each month M of relevant period t, has the value determined in accordance with paragraph B12 in Part B of Schedule A .

$\sum_M$  means the summation over all months M in relevant period t.

~~NPI shall have the meaning given in paragraph 13 of Part 2(ii) of this special condition.~~

~~(a) for the purposes of this paragraph 16 ISF<sub>t</sub> shall be determined as follows in respect of relevant year t:~~

~~if IMOT<sub>t</sub> > CSOOC<sub>t</sub> then ISF<sub>t</sub> = IUSF<sub>t</sub> otherwise ISF<sub>t</sub> = IDSF<sub>t</sub>; and~~

~~if IMCET<sub>t</sub> > CSCEC<sub>t</sub> then ISF<sub>t</sub> = IUSF<sub>t</sub> otherwise ISF<sub>t</sub> = IDSF<sub>t</sub>;~~

~~where:~~

~~IUSF<sub>t</sub> which is a balancing services activity upside sharing factor in respect of relevant year t and has the value specified in paragraph B7 in Part B of Schedule A.~~

~~IDSF<sub>t</sub> which is a balancing services activity downside sharing factor in respect of relevant year t and has the value specified in paragraph B7 in Part B of Schedule A.~~

~~IMOT<sub>t</sub> has the meaning given in this paragraph 16.~~

~~IMGET<sub>t</sub> has the meaning given in this paragraph 16.~~

~~CSOOC<sub>t</sub> has the meaning given in paragraph 15.~~

~~CSOCEC<sub>t</sub> has the meaning given in paragraph 15.~~

17. Income adjusting events under the balancing services activity revenue restriction on internal costs.

(a) An income adjusting event in relevant year t may arise from any of the following:

- i) an event or circumstance constituting force majeure under the STC;
- ii) an event or circumstance resulting from an amendment to the STC not allowed for in setting the allowed revenues of the licensee for the relevant year t; and
- iii) an event or circumstance other than listed above which is, in the opinion of the Authority, an income adjusting event and approved by it as such in accordance with paragraph 18 of this licence condition where the event or circumstance has, for relevant year t, increased or decreased the value of CSOC<sub>t</sub> by more than £1,000,000 (the "STC threshold amount"). *[remove unnecessary blank line mid way down this paragraph]*

(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 17(a) above:

**Table 1:**

Amendment No.	Amendment Title

18. Notice of proposed income adjusting event

- (a) Where the licensee considers, and can provide supporting evidence that, in respect of relevant year t, there have been costs and/or expenses that have been incurred or saved by an income adjusting event, then the licensee shall give notice of this event to the Authority.
- (b) A notice provided to the Authority under paragraph 18(a) shall give particulars of:
  - (i) the event to which the notice relates and the reason(s) why the licensee considers this event to be an income adjusting event;
  - (ii) the amount of any change in costs and/or expenses that can be demonstrated by the licensee to have been caused or saved by the event and how the amount of these costs and/or expenses has been calculated;
  - (iii) the amount of any allowed income adjustment proposed as a consequence of that event and how this allowed income adjustment has been calculated; and
  - (iv) any other analysis or information which the licensee considers to be sufficient to enable the Authority and the relevant parties referred to in subparagraph 19(a) to fully assess the event to which the notice relates.
- (c) If the Authority considers that the analysis or information provided in subparagraphs 18(b)(i) to 18(b)(iv) above is insufficient to enable both the Authority and the relevant parties referred to in subparagraph 19(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 1718(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 18(f)(i) is necessary for the purposes of enabling the relevant parties to fully assess the event to which the notice relates.

#### 19. The Authority's determination

- (a) The Authority shall determine (after consultation with the licensee and such other persons as it considers desirable):
  - (i) whether any or all of the costs and/or expenses given in a notice pursuant to paragraph 18(a) were caused or saved by an income adjusting event;
  - (ii) whether the event or circumstance has increased or decreased the value of  $CSOC_t$  by more than the STC threshold amount;
  - (iii) if so, whether the amount of the proposed income adjustment ensures that the financial position and performance of the licensee are, insofar as is reasonably practicable, the same as if that income adjusting event had not taken place, and if not, what allowed income adjustment would secure that effect; and
  - (iv) the periods, if any, over which the amounts should apply.
- (b) In relation to the relevant year  $t$ , the allowed income adjustment ( $IAT_t$ ) shall be:
  - (i) the value determined by the Authority under paragraph 19(a) above; or
  - (ii) if the Authority has not made a determination under paragraph 19(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 18(b)(iii); or

- (iii) in all other cases zero, including situations where the Authority has not made a determination under paragraph 19(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 18(b) and/or 18(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 18(a) shall be in writing, shall be copied to the licensee and shall be in the public domain.
- (d) The Authority may revoke an approval of an income adjusting event and allowed income adjustment with the consent of the licensee, following consultation with the licensee and relevant parties. Revocation of any income adjusting event and allowed income adjustment shall be in writing, shall be copied to the licensee and shall be in the public domain.

| ~~20.~~ [Not used]

## Standard Condition B1 – Regulatory Accounts

### Part A: Application and purpose *[Bold]*

1. This condition applies for the purpose of ensuring:
  - (a) the licensee prepares and publishes regulatory accounts within the meaning of paragraph 3 (b); and
  - (b) that the licensee maintains (and secures that any affiliate or related undertaking of the licensee maintains) such accounting records, other records and reporting arrangements for the consolidated transmission business as are necessary to enable the licensee to comply with that obligation.

### Part B: Preparation of accounts

2. For the purposes of this condition, but without prejudice to paragraph 6, the licensee shall prepare regulatory accounts for each financial year ending on 31 March.
3. Unless the Authority otherwise consents, the licensee ~~must~~**shall**:
  - (a) keep or cause to be kept for a period approved by the Authority, but not less than the period referred to in section 222(5)(b) of the Companies Act 1985 and in the manner referred to in that section, such accounting records and other records as are necessary so that the revenues, costs, assets, liabilities, reserves, and provisions of, or reasonably attributable to ~~, each of the businesses referred to in paragraph 1~~**the consolidated transmission business** are separately identifiable in the accounting records of the licensee (and of any affiliate or related undertaking of the licensee) from those of any other business of the licensee; and
  - (b) prepare, on a consistent basis from such accounting records in respect of each financial year, regulatory accounts (including notes thereto and statements of the accounting policies adopted) of the licensee comprising, **in respect of the consolidated transmission business**:
    - ~~(a)~~**(i)** a profit and loss account (or, as appropriate, an income statement);
    - ~~(b)~~**(ii)** a statement of total recognised gains and losses (or, as appropriate, a statement of changes in equity and if appropriate a statement of recognised income and expense);
    - ~~(c)~~**(iii)** a balance sheet;
    - ~~(d)~~**(iv)** a cash flow statement;

~~(e)~~(v) a corporate governance statement in respect of the **consolidated transmission business** ~~whole business to which this licence relates;~~

~~(f)~~(vi) a directors' report in respect of the **consolidated transmission business** ~~whole business to which this licence relates;~~

~~(g)~~(vii) an operating and financial review in respect of the **consolidated transmission business** ~~whole business to which this licence relates;~~

and

~~(h)~~(viii) a statement showing separately and in appropriate detail the amounts of any revenue, cost, asset, liability, reserve or provision which has either been:

(aa) charged from any ultimate controller of the licensee, together with any subsidiary of such ultimate controller (other than the licensee or its subsidiaries) in relation to the provision of goods or services to the licensee;

(bb) charged from the licensee together with any subsidiary of the licensee in relation to the provision of goods or services to any ultimate controller of the licensee together with any subsidiaries of such ultimate controller (other than the licensee or its subsidiaries); or

(cc) determined by apportionment or allocation to the licensee or between any other business of the licensee or affiliate or related undertaking together with a description of the basis of the apportionment or allocation;

provided that the obligations in (aa), (bb) and (cc) above shall only apply to goods and services received or supplied for the purposes of the consolidated transmission business.

4. Unless the Authority so specifies in directions issued for the purposes of this condition, or with the Authority's prior written approval, the licensee shall not in relation to the regulatory accounts in respect of a financial year change the bases of charge or apportionment or allocation referred to in paragraph 3(b)(viii) from those applied in respect of the previous financial year.

5. Where, in relation to the regulatory accounts in respect of a financial year, the licensee has, in accordance with paragraph 4 above, changed such bases of charge or apportionment or allocation or changed any of its accounting policies or the application of those accounting policies from those adopted for the immediately preceding financial year, the licensee shall, if directed by the Authority in writing, in

addition to preparing regulatory accounts on those bases which it has adopted, also prepare such regulatory accounts on the bases and the accounting policies and the application of its accounting policies which applied in respect of that immediately preceding financial year.

6. Regulatory accounts and information in respect of a financial year prepared under paragraph 3(b) shall, so far as reasonably practicable and unless otherwise approved by the Authority having regard to the purposes of this condition, have the same content and format as the most recent or concurrent statutory accounts of the licensee prepared under sections 226 and 226A or, where appropriate, section 226B of the Companies Act 1985 and shall comply with all relevant accounting and reporting standards currently in force which have been issued or adopted by the Accounting Standards Board or, if the regulatory accounts and information have been prepared under section 226B of the Companies Act 1985, by the International Accounting Standards Board.

**Part C: Audit and delivery of accounts** *[Bold]*

7. Unless the Authority otherwise consents, the licensee shall:
- (a) procure, in relation to its regulatory accounts:
    - (i) an audit by an appropriate auditor of such parts of those accounts and the directors' report and operating and financial review as are specified in the Companies Act 1985 as being required to be so audited as if the licensee were a quoted company and they were the statutory accounts of the licensee prepared under sections 226 and 226A or, as appropriate, section 226B of the Companies Act 1985 drawn up to 31 March, and
    - (ii) a report by that auditor, addressed to the Authority, stating whether in the auditor's opinion those accounts fairly present the financial position, financial performance and cash flows of or reasonably attributable to the **consolidated transmission business licensee** in accordance with the requirements of this condition; and
  - (b) deliver to the Authority those accounts and the auditor's reports referred to in sub-paragraph (a)(ii) and paragraph 8 as soon as is reasonably practicable, and in any event prior to their publication under Part D and not later than 31

July following the end of the financial year to which the regulatory accounts relate.

8. The licensee shall take all appropriate steps within its power to procure, in relation to its regulatory accounts:
  - (a) that the audit referred to in paragraph 7(a)(i) verifies whether the obligation to avoid discrimination and cross-subsidies specified in Article 19 of Directive 2003/54/EC of the European Parliament and of the European Council of 26 June 2003 has been respected by the licensee; and
  - (b) that the appropriate auditor reports separately on that matter from his report under paragraph 7(a)(ii) addressed to the Authority.
9. For the purposes of paragraphs 7 and 8, the licensee must, at its own expense, enter into a contract of appointment with an appropriate auditor which includes a term requiring that the audit of the regulatory accounts of the licensee must be conducted by that auditor in accordance with all such relevant auditing standards in force on the last day of the financial year to which the audit relates as would be appropriate for accounts prepared in accordance with either section 226A or 226B of the Companies Act 1985.

**Part D: Publication of regulatory accounts [Bold]**

10. Unless the Authority otherwise directs, after consulting the licensee, the licensee shall publish its regulatory accounts with the exception of the part of such regulatory accounts which shows separately the amounts charged, apportioned or allocated and describes the bases of charge or apportionment or allocation respectively required under paragraph 3(b)(viii), and any other information agreed by the Authority in writing to be confidential:
  - (a) as a stand-alone document in accordance with this condition;
  - (b) by 31 July following the end of the financial year to which the accounts relate;
  - (c) on a website used by the licensee in its ordinary course of business (where the regulatory accounts should be reasonably accessible to any person requiring them); and

- (d) in any other manner which, in the opinion of the licensee, is necessary to secure adequate publicity for the accounts.
11. A copy of the regulatory accounts must be provided free of charge:
- (a) to the Consumer Council no later than the date on which the regulatory accounts are published; and
  - (b) to any person requesting a copy.

**Part E: Interpretation [Bold]**

12. References in this condition to sections of the Companies Act 1985 are references to those provisions as amended, substituted or inserted by the relevant provisions of the Companies Act 1989, and if such provisions of the Companies Act 1989 are not in force at the date on which this condition takes effect, it must be construed as if such provisions were in force at such date.
13. A consent under paragraph 3 or directions under paragraphs 4 or 5 may be given in relation to some or all of the requirements of the relevant paragraph and subject to such conditions as the Authority considers appropriate or necessary having regard to the purposes of this condition.
14. In this condition:

~~(a) “consolidated transmission business” means the consolidation, for regulatory accounting purposes, of the businesses referred to in the definition of “transmission business” as defined in standard condition A1 (Definitions and Interpretation)~~

***[Note definition of “consolidated transmission business” should now appear in standard condition A1 (Definitions and interpretation)]***

(ba) “corporate governance statement” means a statement which describes how the principles of good corporate governance have been applied to the licensee and which a quoted company is required to prepare pursuant to the Combined Code on Corporate Governance issued under the Financial Services Authority’s listing rules and interpretations on corporate governance (and, for the purposes of this

condition, the requirement for a quoted company to prepare such a statement is to be taken as a requirement for the licensee to do so whether or not it is a quoted company).

(eb) “directors’ report” means a report having the coverage and content of the directors’ report which a quoted company is required to prepare pursuant to sections 234, 234ZZA and 234ZZB of the Companies Act 1985 (and, for the purposes of this condition, the requirement for a quoted company to prepare such a report is to be taken as a requirement for the licensee to do so whether or not it is a quoted company).

(ec) “operating and financial review” means a review having the coverage and content of the operating and financial review which a quoted company is required to prepare pursuant to section 234AA of the Companies Act 1985 and in accordance with Schedule 7ZA thereof (and, for the purposes of this condition, the requirement for a quoted company to prepare such a review is to be taken as a requirement for the licensee to do so whether or not it is a quoted company).

(ed) “quoted company” has the meaning attributed to it by the Companies Act 1985.

**Standard Condition B2. Change of Financial Year**

1. The definition of “financial year” in ~~Standard Condition~~ **standard condition** A1 (Definitions and Interpretation) shall, for the purpose only of the statutory accounts of the licensee, cease to apply to the licensee from the date at which the licensee sends a notice to the Authority for that purpose.
2. Such notice shall:
  - (a) specify the date from which, for the purpose set out at paragraph 1, the current and subsequent financial years of the licensee shall run; and
  - (b) continue in effect until revoked by the licensee issuing a further notice.
3. The licensee may, for the purpose only of its statutory accounts, change its financial year from that previously notified by sending to the Authority a new notice pursuant to paragraph 1 which specifies the licensee’s new financial year-end.
4. Where the licensee sends the Authority a new notice, the previous notice shall be revoked, as provided by paragraph 2(b), and the licensee’s financial year-end shall change with effect from the date specified in the new notice.
5. The provisions of this condition shall not:
  - (a) apply to the financial year of the licensee as defined in ~~Standard Condition~~ **standard condition** A1 (Definitions and Interpretation) for the purpose of accounts or other information produced in compliance with ~~Standard Condition~~ **standard condition** B1 (Regulatory Accounts) and ~~Standard Condition~~ **standard condition** B15 (Price Control Review Information); or
  - (b) affect the licensee’s obligations in respect of the payment of licence fees under standard condition A4 (Payments ~~by Licensee~~ to the Authority).

**Standard Condition B6. Restriction on Activity and Financial Ring Fencing**

1. Save as provided by paragraphs 3 and 4, the licensee shall not conduct any business or carry on any activity other than the transmission business.
2. The licensee shall not without the prior written consent of the Authority hold or acquire shares or other investments of any kind except:
  - (a) shares or other investments in a body corporate the sole activity of which is to carry on business for a permitted purpose;
  - (b) shares or other investments in a body corporate which is a subsidiary of the licensee and incorporated by it solely for the purpose of raising finance for the transmission business; or
  - (c) investments acquired in the usual and ordinary course of the licensee's treasury management operations, subject to the licensee maintaining in force, in relation to those operations, a system of internal controls which complies with best corporate governance practice as required (or, in the absence of any such requirement, recommended) by the UK listing authority (or a successor body) from time to time for listed companies in the United Kingdom.
3. Subject to the provisions of paragraph 2, nothing in this condition shall prevent:
  - (a) any affiliate in which the licensee does not hold shares or other investments from conducting any business or carrying on any activity;
  - (b) the licensee from holding shares as, or performing the supervisory or management functions of, an investor in respect of any body corporate in which it holds an interest consistent with the provisions of this licence;
  - (c) the licensee from performing the supervisory or management functions of a holding company in respect of any subsidiary; or
  - (d) the licensee from carrying on any business or conducting any activity to which the Authority has given its consent in writing.
4. Nothing in this condition shall prevent the licensee or an affiliate or related undertaking of the licensee in which the licensee holds shares or other investments (a "relevant associate") from conducting de minimis business as defined in this paragraph so long as the limitations specified in this paragraph are complied with:
  - (a) For the purpose of this paragraph, "de minimis business" means any business or activity carried on by the licensee or a relevant associate or

relevant associates other than:

- (i) **the** transmission business; and
  - (ii) any other business activity to which the Authority has given its consent in writing in accordance with paragraph 3(d).
- (b) The licensee or a relevant associate may carry on de minimis business provided that neither of the following limitations is exceeded, namely:
- (i) the aggregate turnover of all the de minimis business carried on by the licensee and the equity share of the aggregate turnover of all the de minimis business carried on by all its relevant associates does not in any period of twelve months commencing on 1 April of any year exceed 2.5 per cent of the aggregate turnover of the transmission business, as shown by the most recent audited regulatory accounts of the licensee produced under paragraph 3(b) of standard condition B1 (Regulatory Accounts); and
  - (ii) the aggregate amount (determined in accordance with sub-paragraph (d) below) of all investments made by the licensee in de minimis business, carried on by the licensee and all relevant associates, does not at any time after the date at which this condition takes effect in the **licensee's** transmission licence ~~of the licensee~~ exceed 2.5 per cent of the sum of the share capital in issue, the share premium and the consolidated reserves (including retained earnings) of the licensee as shown by the most recent audited regulatory accounts of the licensee produced under paragraph 3(b) of standard condition B1 (Regulatory Accounts) then available.
- (c) For the purpose of sub-paragraph (b) above, "investment" means any form of financial support or assistance given by or on behalf of the licensee for the de minimis business whether on a temporary or permanent basis and including (without limiting the generality of the foregoing) any commitment to provide any such support or assistance in the future.
- (d) At any relevant time, the amount of an investment shall be the sum of:
- (i) the value at which such investment was included in the audited historical cost balance sheet of the licensee as at its latest accounting reference date to have occurred prior to the date this condition comes into effect in the **licensee's** transmission licence ~~of the licensee~~ (or, where the investment was not so included, zero);

- (ii) the aggregate gross amount of all expenditure (whether of a capital or revenue nature) howsoever incurred by the licensee in respect of such investment in all completed accounting reference periods since such accounting reference date; and
- (iii) all commitments and liabilities (whether actual or contingent) of the licensee relating to such investment outstanding at the end of the most recently completed accounting reference period, less the sum of the aggregate gross amount of all income (whether of a capital or revenue nature) howsoever received by the licensee in respect of such investment in all completed accounting reference periods since the accounting reference date referred to in sub-paragraph (d)(i).

5 For the purposes of paragraph 4, “equity share”, in relation to any shareholding, means the nominal value of the equity shares held by the licensee in a relevant associate, as a percentage of the nominal value of the entire issued equity share capital of that relevant associate.

### Standard Condition B7. Availability of Resources

1. The licensee shall at all times act in a manner calculated to secure that it has available to itself such resources, including (without limitation) management and financial resources, personnel, fixed and moveable assets, rights, licences, consents and facilities, on such terms and with all such rights, as shall ensure that it is at all times able:
  - (a) to properly and efficiently carry on the transmission business; and
  - (b) to comply in all respects with its obligations under this licence and such obligations under the Act as apply to the transmission business including, without limitation, its duty to develop and maintain an efficient, co-ordinated and economical system of electricity transmission.
  
2. The licensee shall by 31 July of each year submit to the Authority a certificate, approved by a resolution of the board of directors of the licensee and signed by a director of the licensee pursuant to that resolution, in one of the following forms:
  - (a) “After making enquiries, and having taken into account in particular (but without limitation) any dividend or other distribution which might reasonably be expected to be declared or paid by the licensee, the directors of the licensee have a reasonable expectation that the licensee will have sufficient financial resources and financial facilities available to itself to enable the licensee to carry on the transmission business ~~and activities authorised by the licence held in accordance with its obligations under the Electricity Act 1989~~ for a period of 12 months from the date of this certificate.”
  
  - (b) “After making enquiries, and having taken into account in particular (but without limitation) any dividend or other distribution which might reasonably be expected to be declared or paid by the licensee, the directors of the licensee have a reasonable expectation, subject to what is explained below, that the licensee will have sufficient financial resources and financial facilities available to itself to enable the licensee to carry on the transmission business ~~and activities authorised by the licence held in accordance with its obligations under the Electricity Act 1989~~ for a period of 12 months from the date of this certificate. However, they would like to draw attention to the following factors which may cast doubt on the ability of the licensee to carry on the transmission business.”
  
  - (c) “In the opinion of the directors of the licensee, the licensee will not have sufficient financial resources and financial facilities available to itself to enable the licensee to carry on the transmission business ~~and activities authorised by~~

~~the licence held in accordance with its obligations under the Electricity Act 1989~~  
for a period of 12 months from the date of this certificate.”

3. The licensee shall submit to the Authority with that certificate:
  - (i) a statement of the main factors which the directors of the licensee have taken into account in giving the certificate, together with a confirmation of the availability of financial facilities; and
  - (ii) a cashflow forecast, movement in net debt and analysis of net debt.
4. The documents submitted to the Authority in accordance with paragraph 3 shall be approved by a resolution of the board of directors of the licensee and must be signed by a director of the licensee pursuant to that resolution.
5. The licensee shall inform the Authority in writing immediately if the directors of the licensee become aware of any circumstance which causes them no longer to have the reasonable expectation expressed in the most recent certificate given under paragraph 2.
6. The licensee shall require that each certificate provided in accordance with paragraph 2 is accompanied by a report prepared by its auditors and addressed to the Authority stating whether or not the auditors are aware of any inconsistencies between, on the one hand, that certificate and the statement and cashflow forecast, movement in net debt, **and** analysis of net debt submitted with it and, on the other hand, any information which they obtained during their audit work on the regulatory accounts of the licensee prepared pursuant to standard condition B1 (Regulatory Accounts).
7. The directors of the licensee shall not declare or recommend a dividend, and the licensee shall not make any other form of distribution within the meaning of section 263 of the Companies Act 1985, or redeem or repurchase any share capital of the licensee unless prior to the declaration, recommendation or making of the distribution (as the case may be) the licensee has issued to the Authority a certificate complying with the following requirements of this paragraph:
  - (a) The certificate shall be in the following form:

“After making enquiries, the directors of the licensee are satisfied:

    - (i) that the licensee is in compliance in all material respects with all obligations imposed on it by standard condition B4 (Provision of Information to the Authority), standard condition B6 (Restriction on Activity and Financial Ring Fencing), standard condition B7 (Availability of Resources), standard condition B8 (Undertaking from

Ultimate Controller), standard condition B10 (Credit Rating) and standard condition B9 (Indebtedness) of its licence; and

- (ii) that the making of a distribution of [ ] on [ ] will not, either alone or when taken together with other circumstances reasonably foreseeable at the date of this certificate, cause the licensee to be in breach to a material extent of any of those obligations in the future.”
- (b) The certificate shall be signed by a director of the licensee and must have been approved by a resolution of the board of directors of the licensee passed not more than 14 days before the date on which the declaration, recommendation or payment will be made.
- (c) Where the certificate has been issued in respect of the declaration or recommendation of a dividend, the licensee shall be under no obligation to issue a further certificate prior to payment of that dividend, provided that such payment is made within six months of the issuing of that certificate.

**Standard Condition B9. Indebtedness**

1. In addition to the requirements of standard condition B3 (Disposal of Relevant Assets), the licensee shall not without the prior written consent of the Authority (following the disclosure by the licensee of all material facts):

(a) create or continue or permit to remain in effect any mortgage, charge, pledge, lien or other form of security or encumbrance whatsoever, undertake any indebtedness to any other person or enter into any guarantee or any obligation otherwise than:

- (i) on an arm's length basis;
- (ii) on normal commercial terms;
- (iii) for a permitted purpose; and
- (iv) (if the transaction is within the ambit of standard condition B3 (Disposal of Relevant Assets)) in accordance with that condition;

(b) transfer, lease, license or lend any sum or sums, asset, right or benefit to any affiliate or related undertaking of the licensee otherwise than by way of:

- (i) a dividend or other distribution out of distributable reserves;
- (ii) repayment of capital;
- (iii) payment properly due for any goods, services or assets provided on an arm's length basis and on normal commercial terms;
- (iv) a transfer, lease, licence or loan of any sum or sums, asset, right or benefit on an arm's length basis, on normal commercial terms and made in compliance with the payment condition referred to in paragraph 2;
- (v) repayment of or payment of interest on a loan not prohibited by sub-paragraph (a);
- (vi) payments for group corporation tax relief or for the surrender of Advance Corporation Tax calculated on a basis not exceeding the value of the benefit received; or
- (vii) an acquisition of shares or other investments in conformity with paragraph 2 of standard condition B6 (Restriction on Activity and Financial Ring Fencing) made on an arm's length basis and on normal commercial terms,

provided however, that the provisions of paragraph 3 below shall prevail

in any of the circumstances described or referred to therein;

- (c) enter into an agreement or incur a commitment incorporating a cross-default obligation; or
- (d) continue or permit to remain in effect any agreement or commitment incorporating a cross-default obligation subsisting on the date this condition comes into effect in the licensee's transmission licence save that the licensee may permit any cross-default obligation in existence at that date to remain in effect for a period not exceeding twelve months from that date, provided that the cross-default obligation is solely referable to an instrument relating to the provision of a loan or other financial facilities granted prior to that date and the terms on which those facilities have been made available as subsisting on that date are not varied or otherwise made more onerous;

provided however that the provisions of sub-paragraphs 1(c) and (d) shall not prevent the licensee from giving any guarantee permitted by and compliant with the requirements of sub-paragraph (a).

2. The payment condition referred to in paragraph 1(b)(iv) is that the consideration due in respect of the transaction in question is paid in full when the transaction is entered into unless either:

- (a) the counter-party to the transaction has and maintains until payment is made in full an investment grade issuer credit rating; or
- (b) the obligations of the counter-party to the transaction are fully and unconditionally guaranteed throughout the period during which any part of the consideration remains outstanding by a guarantor which has and maintains an investment grade issuer credit rating.

3. Except with the prior consent of the Authority, the licensee shall not after 1<sup>st</sup> April 2008 enter into or complete any transaction of a type referred to or described in paragraph 1(b) save in accordance with paragraph 4, if:

- (a) the licensee does not hold an investment grade issuer credit rating;
- (b) where the licensee holds more than one issuer credit rating, one or more of the ratings so held is not investment grade; or
- (c) any issuer credit rating held by the licensee is BBB- by Standard & Poor's Ratings Group or Fitch Ratings Ltd or Baa3 by Moody's Investors Service, Inc. (or such higher issuer credit rating as may be specified by any of these credit rating agencies from time to time as the lowest investment grade credit rating), or is an equivalent rating from another agency that has been notified to the licensee by the Authority as of comparable standing for the purposes of standard condition B10 (Credit Rating) and:

- (i) is on review for possible downgrade; or
- (ii) is on Credit Watch or Rating Watch with a negative designation;

or, where neither (i) nor (ii) applies:

- (iii) the rating outlook of the licensee as specified by any credit rating agency referred to in sub-paragraph (c) which at the relevant time has assigned the lower or lowest investment grade issuer credit rating held by the licensee has been changed from stable or positive to negative.

4. Where paragraph 3 applies, the licensee may not without the prior written consent of the Authority (following disclosure of all material facts) transfer, lease, license or lend any sum or sums, asset, right or benefit to any affiliate or related undertaking of the licensee as described or referred to in paragraph 1(b), otherwise than by way of:

- (a) payment properly due for any goods, services or assets in relation to commitments entered into prior to the date on which the circumstances described in paragraph 3 arise, and which are provided on an arm's length basis and on normal commercial terms;
- (b) a transfer, lease, licence or loan of any sum or sums, asset, right or benefit on an arm's length basis, on normal commercial terms and where the value of the consideration due in respect of the transaction in question is payable wholly in cash and is paid in full when the transaction is entered into;
- (c) repayment of, or payment of interest on, a loan not prohibited by paragraph 1(a) and which was contracted prior to the date on which the circumstances in paragraph 3 arise, provided that such payment is not made earlier than the original due date for payment in accordance with its terms; and
- (d) payments for group corporation tax relief or for the surrender of Advance Corporation Tax calculated on a basis not exceeding the value of the benefit received, provided that the payments are not made before the date on which the amounts of tax thereby relieved would otherwise have been due.

~~5. In this condition~~

~~"investment grade"~~

~~has for the purposes of this condition the meaning given in paragraph 2 of standard condition B10 (Credit Rating).~~

~~“issuer credit rating”~~

~~has for the purposes of this condition the meaning given in paragraph 2 of standard condition B10 (Credit Rating).~~

***[Note definitions of “investment grade” and “issuer credit rating” should now appear in standard condition A1 (Definitions and interpretation) in place of “investment grade issuer credit rating”.]***

**Standard Condition B10. Credit Rating**

1. The licensee shall take all appropriate steps to ensure that the licensee maintains at all times an investment grade issuer credit rating.
2. In this condition:

**“issuer credit rating”** means:

- (a) an issuer rating by Standard & Poor’s Ratings Group or any of its subsidiaries;
- (b) an issuer rating by Moody’s Investors Service Inc. or any of its subsidiaries;
- (c) an issuer default rating (or equivalent such rating) by Fitch Ratings Ltd or any of its subsidiaries; or
- (d) a rating which, in the opinion of the Authority, notified in writing to the licensee, is equivalent to those referred to in sub-paragraphs (a), (b) or (c) and issued by: *[formatting needs correcting in paras (i) & (ii) below]*
  - (i) any of the credit rating agencies referred to in sub-paragraphs ~~\_\_\_\_\_~~(a), (b) or (c); or
  - ~~\_\_\_\_\_~~(ii) any other reputable credit rating agency which, in the ~~\_\_\_\_\_~~opinion of the Authority, notified in writing to the licensee, has ~~\_\_\_\_\_~~comparable standing in both the United Kingdom and the ~~\_\_\_\_\_~~United States of America.

In relation to any issuer credit rating, **“investment grade”** means:

- (a) unless sub-paragraph (b) below applies:
  - (i) an issuer rating of not less than BBB- by Standard & Poor’s Ratings Group or any of its subsidiaries;
  - (ii) an issuer rating of not less than Baa3 by Moody’s Investors Service Inc. or any of its subsidiaries;
  - (iii) an issuer default rating of not less than BBB- by Fitch Ratings Ltd or any of its subsidiaries; or
  - (iv) a rating which, in the opinion of the Authority, notified in writing to the licensee, is equivalent to those referred to in sub-paragraphs

(i), (ii) and (iii) and issued by: *[formatting needs correcting in paras (aa) & (bb) below]*

- (aa) any of the credit rating agencies referred to in subparagraphs (i), (ii) or (iii); or
  - (bb) any other reputable credit rating agency which, in the opinion of the Authority, notified in writing to the licensee, has comparable standing in both the United Kingdom and the United States of America.
- (b) such higher rating as may be specified by those agencies from time to time as the lowest investment grade credit rating.

**Standard Condition B15. Price Control Review Information**

**Part A: Application and purpose [Bold]**

1. This condition ~~takes effect from [DATE TO BE INSERTED] and~~ applies in respect of the price control review information of the licensee relating to the relevant year commencing [DATE TO BE INSERTED] and each succeeding relevant year for the purposes set out in paragraph 2.
2. Those purposes are:
  - (a) to ensure that the licensee maintains (and secures that any affiliate or related undertaking of the licensee maintains) such accounting records, other records, and reporting arrangements as are necessary to enable the licensee to prepare price control review information for submission to the Authority in accordance with the requirements of this condition;
  - (b) to establish **as soon as reasonably practicable, but no later than [ ]**, ~~by 1st April 2007~~, a common set of rules, issued by direction of the Authority, which are to apply to the collection and preparation of price control review information for submission to the Authority by the licensee and every other transmission licensee (“the price control review reporting rules”); and thereby:
  - (c) to facilitate any review or modification by the Authority of the requirements of any of the charge restriction conditions of this licence (“**a price control review**”).

**Part B: Preparation of price control review information [Bold]**

3. Unless and insofar as the Authority otherwise consents, the licensee must:
  - (a) keep or cause to be kept for a period approved by the Authority, but not less than the period referred to in section 222(5)(b) of the Companies Act 1985 and in the manner referred to in that section, such accounting records and other records as are necessary to ensure that the price control review information of, or reasonably attributable to the **consolidated** transmission business is separately identifiable in the accounting records of the licensee (and of any affiliate or related undertaking of the licensee); and

- (b) ~~(b)~~ prepare and submit to the Authority, on a consistent basis from such accounting records, in respect of each financial year, price control review information for such aspects of the consolidated transmission business and of the business of each affiliate or related undertaking of the licensee that either directly or indirectly provides goods and services to the licensee or forms part of the consolidated transmission business, either separately or consolidated, and in such manner and in respect of such financial year as may be required under the price control review reporting rules.

**Part C-: Delivery and review of price control review [Bold]**

- 4. (a) Unless and insofar as the Authority otherwise consents, the licensee must deliver the price control review information to the Authority as soon as is reasonably practicable following the end of the financial year to which such information relates and in any event not later than the date determined by the Authority and set out in a direction issued pursuant to paragraph (b).

- ~~(b)~~ (b) The Authority may issue directions stating the date by which each transmission licensee must deliver the price control review information to the Authority.

- 5. The Authority may, in addition to any audit of the regulatory accounts of the licensee carried out in accordance with standard condition B1 (Regulatory Accounts), review, or arrange for a person nominated by the Authority ("a reviewer") to review, matters in the price control review information in respect of which the Authority requires clarification.

- 6. Subject to paragraph 7, the licensee, in relation to the purposes of any review carried out under paragraph 5:

- (a) shall give the Authority or (as the case may be) the reviewer all such assistance as it or he may reasonably require; and

- (b) shall (and must procure, insofar as it is able to do so, that any affiliate or related undertaking of the licensee, any person by whom it procures the performance of any obligation under this condition and any auditor of such person, or of the licensee or any affiliate or related undertaking of the licensee, shall) co-operate fully with the Authority or (as the case may be) with the reviewer so as to enable him to carry out and complete his review for the Authority.

7. Where a reviewer has been nominated in accordance with paragraph 5, the licensee's performance of its obligations under paragraph 6 in relation to the reviewer is conditional on the reviewer's having entered into an agreement with the licensee to maintain confidentiality on reasonable terms.

**Part D: Establishment of the price control review reporting rules [Bold]**

8. ~~Subject to paragraph 9, the~~ **The** price control review reporting rules **developed by the licensee in accordance with paragraph 10**, shall, **subject to paragraph 9**, be issued by direction of the Authority for the purposes of this condition generally. The Authority may from time to time modify the price control review reporting rules in accordance with the provisions of Part F of this condition.

9. Before issuing a direction under paragraph 8, the Authority shall

- (a) give notice to all transmission licensees:
  - (i) stating that it intends to issue the price control review reporting rules,
  - (ii) setting out the contents of those rules and the date on which it is proposed that the direction should take effect, and
  - (iii) specifying the period (not being less than 28 days from the date of the notice) within which representations or objections with respect to those rules may be made;
- (b) consider any representations or objections which are duly made and not withdrawn; and
- (c) give reasons for its decision.

10. The licensee shall take all appropriate steps within its power:

- (a) in conjunction and co-operation with every other transmission licensee; and
- (b) in accordance with a programme of work and an associated timetable established and directed by the Authority in consultation with all transmission licensees;

to develop the price control review reporting rules for implementation pursuant to this condition by ~~[DATE TO BE INSERTED]~~ **the date specified in paragraph 2(b) above.**

**Part E: Content of the price control review reporting rules [Bold]**

11. Subject to paragraphs 12 to 15, the price control review reporting rules may, in relation to any requirement of this condition in respect of the price control review information without limitation, specify:
- (a) the meaning to be applied to words and phrases (other than those defined in this or any other condition of this licence) used in connection with such information;
  - (b) the methodology for calculating or deriving numbers comprising any part of such information;
  - (c) requirements as to the form and manner in which such information must be recorded;
  - (d) requirements as to the standards of accuracy and reliability with which such information must be recorded;
  - (e) requirements as to the form and the content of such information;
  - (f) requirements as to the manner in which such information must be provided to the Authority; and
  - (g) requirements as to those parts of such information which may fall to be considered by a reviewer and the nature of that consideration;

and (having particular regard to the provisions of section 105 of the Utilities Act 2000) may also specify which (if any) of the information provided under this condition is to be subject to publication by the Authority.

12. The price control review reporting rules may not:
- (i) exceed what is necessary to achieve the purposes of this condition, having regard in particular to the materiality of the costs likely to be incurred by the licensee in complying therewith; or
  - (ii) purport to have effect with respect to the interpretation of any other condition of this licence or the fulfilment by the licensee of any obligation imposed in respect of any matter which is the subject of any such condition.

**Part F: Modification of the price control review reporting rules *[Bold]***

13. The Authority may modify, in whole or in part, any price control review reporting rules established in accordance with Part D of this condition, in accordance with the following provisions of this Part F.

14. Subject to paragraph 15, where the Authority considers that it is necessary to modify the price control review reporting rules in order to provide more accurate, consistent, useful or comparable information for the purposes of a price control review, it may do so by issuing a direction to that effect where it:

- (a) has first given notice to all transmission licensees:
  - (i) stating that it proposes to make the modification,
  - (ii) setting out the text of the modification, the purpose and effect of the modification and the date on which it is proposed to come into effect, and
  - (iii) specifying the period (not being less than 28 days from the date of the notice) within which representations or objections with respect to the proposed modification may be made;
- (b) has considered any representations or objections which are duly made and not withdrawn; and
- (c) has given reasons for its decisions.

15. Where a modification of the price control review reporting rules relates to the introduction into those rules of a requirement to provide:

- (a) a new category of price control review information; or
- (b) an existing category of price control review information to a greater level of detail,

and in either case such information has not previously been collected by the licensee (whether under the provisions of the price control review reporting rules or otherwise), it shall not be a breach of that requirement for the licensee to provide estimates in respect of that category, for the year in which the modification is made and for any preceding year, derived from such other information available to the licensee as may be appropriate for that purpose.

**Part G: Interpretation [Bold]**

16. A consent under paragraph 3 or 4 may be given in relation to some or all of the requirements of the relevant paragraph and subject to such conditions as the

Authority considers appropriate or necessary having regard to the purposes of this condition.

17. For the purposes of this condition:

~~“consolidated transmission business” has the meaning given in paragraph 14 of standard condition B1 (Regulatory Accounts).~~

“price control review information” means the information required to be submitted by the licensee pursuant to this condition, and is to be interpreted in accordance with the price control review reporting rules.

~~“relevant year” in this condition shall mean a year beginning on 1<sup>st</sup> April of each calendar year and ending on 31<sup>st</sup> March of the following calendar year.~~

***[Note definitions of “consolidated transmission business” and “relevant year” should now appear in standard condition A1 (Definitions and interpretation)]***

**Standard Condition- B16 – Price Control Revenue Reporting and associated  
Associated Information**

**PART A: Application and Purpose**

1. The purpose of this condition is to secure the collection of specified information, to an appropriate degree of accuracy by the licensee so as to enable the Authority to effectively monitor the revenue of the consolidated transmission business.

**PART B: Revenue Reporting ~~figs~~RIGS and specified information**

2. For the purposes of this condition:
  - (a) “revenue reporting ~~figs~~RIGS” means the instructions and guidance issued by the Authority for the purposes of this condition as modified from time to time by a direction under paragraph 11 ~~and subject to paragraphs 12–14~~ which may include (without limitation):
    - (i) **the definition of the specified information to be collected pursuant to this condition** ~~provisions with respect to the meaning of words and phrases used in defining specified information;~~
    - (ii) requirements for recording specified information which are reasonably necessary to enable an appropriate auditor to determine the accuracy and reliability of specified information;
    - (iii) requirements as to the form and manner in which specified information shall be provided to the Authority (including templates for doing so); and
    - (iv) requirements as to the form and manner in which specified information shall be recorded and the standards of accuracy and reliability with which it shall be recorded.
    - (v) requirements as to the timing of specified information to the Authority in respect of each relevant year.**
3. The licensee shall establish and maintain appropriate systems, processes and procedures to measure and record specified information from [DATE TO BE INSERTED] and in accordance with the regulatory instructions and guidance (including any associated information therein) for the time being in force pursuant to this condition.

4. The licensee shall collect the information required by the revenue reporting ~~figs~~RIGS issued pursuant to this condition from the date on which such revenue reporting ~~figs~~RIGS are issued by the Authority.

**PART C : Information to be provided to the Authority**

5. The licensee shall comply with the relevant provisions and information requirements of the revenue reporting ~~figs~~RIGS issued pursuant to this condition.
6. The licensee shall provide the Authority with:
  - (a) the information specified in Template [XX] of the revenue reporting ~~figs~~RIGS by no later than 31 July following the end of the relevant year to which such information relates;
  - (b) the information specified in Template [XX] of the revenue reporting ~~figs~~RIGS by no later than 1 April of the relevant year to which such information relates, being the licensee's estimate of that information made on or before 1 April.

**PART D: Audit Requirements**

7. The information referred to in paragraph 6(a) shall be accompanied by a report addressed to the Authority from the auditors, stating whether in their opinion:
  - (a) the information provided in accordance with paragraph 6(a) has been ~~properly~~ prepared in accordance with the RIGS; and
  - (b) the amounts presented are in accordance with the licensee's records which have been maintained in accordance with paragraph 3 of this condition.
8. The licensee shall require that the report from the auditors, referred to in paragraph 7, is accompanied by a letter from the auditors to the Authority detailing the procedures that the auditors have followed in reaching their opinion.

***[Paragraphs 7 & 8 could be dealt with in the RIGS]***

9. For the purposes of paragraph 7, the licensee shall at its own expense enter into a contract of appointment with the auditors which includes a term requiring that the audit be conducted in accordance with all relevant auditing standards in force

on the last day of the financial year to which the audit relates as would be appropriate.

10. The licensee shall (and must procure, insofar as it is able to do so, that any affiliate or related undertaking of the licensee shall) co-operate fully with the auditors so as to enable them to complete and report to the Authority on any audit carried out in accordance with paragraph 7.

**PART E: Modification to the revenue reporting ~~figs~~RIGS**

11. Where the Authority considers that the revenue reporting ~~figs~~RIGS should be modified- in such ways as **the Authority may reasonably require so as ~~are~~ necessary to** more effectively **to** achieve the purposes of this condition, the Authority may, subject to paragraphs 12 to 14, modify the revenue reporting ~~figs~~RIGS by issuing a direction to all transmission licensees. *[The reasons for modifications to the revenue reporting RIGS should be specified, e.g.:*
- (a) improve the presentation or style of the requirements of those RIGS;*
  - (b) remove or reduce inconsistencies between electricity transmission licensees in the application or interpretation of such requirements;*
  - (c) further clarify the meaning of words and phrases used within such requirements to define the information to be provided;*
  - (d) improve the form or manner in which such information is to be provided under such requirements; or*
  - (e) introduce additional categories of specified information or enlarge existing categories of specified information.]*
12. Before issuing a direction under paragraph 11, the Authority, by notice given to all transmission licensees, shall:
- (a) state that it proposes to make a modification, and set out the date on which it proposes that this should take effect;
  - (b) set out the text of the modification, the purpose and effect of the modification, and the reasons for proposing it; and
  - (c) specify the time (not less than 28 days from the date of the notice) within which representations or objections with respect to the proposed modification may be made,

and **must** consider any representations or objections which have been duly made and are not withdrawn, and give reasons for its decision.

*[Need to insert a safeguard for licensees equivalent to that in paragraph 12 of Standard Special Condition D9 of the DN gas transporter licences, i.e. changes to RIGS to require an additional category of specified information or a greater level of accuracy of specified information are subject to the collective licence modification procedure.]*

13. Any modification of the revenue reporting ~~rigs~~ **RIGS** under paragraph 11 to **require the provision of specified information to a greater level of accuracy or to** introduce an additional category of specified information or to enlarge an existing category of information shall not exceed what may reasonably be requested from the licensee by the Authority under paragraph 1 of standard condition B4 (Provision of Information to the Authority).
14. The provisions of the revenue reporting ~~rigs~~ **RIGS** may not exceed what is necessary to achieve the purposes of this condition or purport to have effect with respect to the interpretation of any other condition of this licence or the fulfilment by the licensee of any obligation imposed in respect of any matter which is the subject of any such condition.
15. **Nothing in this condition shall require the licensee to produce any documents which it could not be compelled to produce or give evidence in civil proceedings before a court.**

~~15. For the purposes of this condition~~

~~“consolidated transmission business” has the meaning given in paragraph 14 of standard condition B1 (Regulatory Accounts).~~

~~“relevant year” in this condition shall mean a year beginning on 1<sup>st</sup> April of each calendar year and ending on 31<sup>st</sup> March of the following calendar year...~~

*[Note definitions of “consolidated transmission business” and “relevant year” should now appear in standard condition A1 (Definitions and interpretation)]*