

To: The Company Secretary  
SP Transmission Ltd  
1 Atlantic Quay  
Glasgow  
G2 8SP

**MODIFICATION PURSUANT TO SECTION 11 OF THE ELECTRICITY ACT 1989  
OF THE ELECTRICITY TRANSMISSION LICENCE OF SP TRANSMISSION  
LIMITED**

Whereas:

1. SP Transmission Limited ("the Licensee") is the holder of an electricity transmission licence ("the Licence") granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 ("the Act").
2. On 1 March 2007, the Gas and Electricity Markets Authority ("the Authority") gave notice ("the Notice") in accordance with section 11(2) and 11(3) of the Act that it proposed to modify the special conditions of the Licence such that:
  - (a) The following special conditions are omitted, deleted and removed from the Licence:
    - (i) Special condition H (Change co-ordination for the Utilities Act 2000);
    - (ii) Special condition I (Definitions);
    - (iii) **Special condition J (Restriction of transmission charges);**
    - (iv) Special condition J1 ( Provision of information to the system Operator;
    - (v) Special condition J2 (Basic of transmission own charges);
    - (vi) Special condition J3 (Capital contribution repayment adjustment);
    - (vii) Special condition K (Restriction of transmission charges: adjustments);
    - (viii) Special condition L (Information to be Provided to the Authority in connection with the charge restriction condition);
    - (ix) Special condition L1 (Price Control Review Information);
    - (x) Special condition M (Allowances in respect of Security Costs);
    - (xi) Special condition N (Duration of charge restriction conditions);
    - (xii) Special condition O (Adjustment to Restriction of Transmission Charges due to Transmission Investment for Renewable Generation);
    - (xiii) Special condition P (Information to be provided to the Authority in connection with Transmission Investment for Renewable Generation);
    - (xiv) Special condition Q (Adjustment to Restriction of Transmission Charges due to Transmission Network Reliability Incentive); and
    - (xv) Schedule B (Terms used in the revenue restriction).

(b) The following special conditions are amended and inserted in the Licence as set out in the schedule to this Direction:

- (i) Special condition F (Amended standard conditions)
- (ii) Schedule A (Supplementary Provisions of the Charge Restriction Conditions).
- (iii) Schedule c (SUPPLEMENTARY PROVISIONS TO SPECIAL CONDITION O AND SPECIAL CONDITION P) which shall be renamed Schedule C: SUPPLEMENTARY PROVISIONS TO SPECIAL CONDITION J3 (Restriction of transmission charges: Transmission Investment for Renewable Generation).

(c) The following special conditions are inserted in the Licence as set out in the schedule to this Direction:

- (i) Special condition J1 (Restriction of transmission charges: Definitions);
- (ii) Special condition J2 (Restriction of transmission charges: revenue from transmission owner services)
- (iii) Special condition J3 (Restriction of transmission revenue: Transmission investment for Renewable Generation);
- (iv) Special condition J4 (Restriction of transmission charges: Allowed pass-through items);
- (v) Special condition J5 (Restriction of transmission charges: Total incentive revenue adjustment);
- (vi) Special condition J6 (Restriction of transmission charges: adjustments);
- (vii) Special condition J7 (Restriction of transmission charges: Capital Expenditure Incentive and Safety Net);
- (viii) Special condition J8 (Provision of Information to the System Operator);
- (ix) Special condition J9 (Duration of Charge Restriction Provisions);
- (x) Special condition J10 (Basis of transmission owner charges);  
and
- (xi) Special condition J11 (Allowances in respect of security costs).

(d) Any necessary incidental or consequential modifications are to be made to any special condition, standard condition or amended standard condition in the Licence for the accurate and correct numbering and referencing of any such condition.

3. In accordance with section 49A of the Act, reasons for modifying the Licence in the manner prescribed in the Schedule this Direction are those referred to in the Notice.
4. The Authority published the Notice in the manner it considered appropriate and required any objections or representations to the modifications to be made in writing on or before 29 March 2007.

5. Prior to the close of the consultation period in respect of the Notice, the Authority received one response and no objections in relation to the proposed modification of the special conditions of the Licence as detailed in the Notice. The licensee suggested a number of minor amendments to the text of the proposed modification to correct typographical errors and provide textual clarification. The Authority has carefully considered the representations and concluded that most of these can be incorporated into the modifications. No responses were withdrawn. All non-confidential responses are available from the Ofgem Research and Information Centre, 9 Millbank, London SW1P 3GE (0207 901 7003 or from the Ofgem website at [www.ofgem.gov.uk](http://www.ofgem.gov.uk))
6. The Authority gave notice to the Secretary of State of its intention to make the modifications and did not receive from him a direction not to make the modification.
7. On 29 March 2007, the Licensee gave its consent to the proposed modification of the special conditions of the Licence in the manner set out in the schedule to this Direction.

Now in accordance with the powers contained in section 11(1) of the Act, the Authority **HEREBY MODIFIES** the special conditions of the Licence in the manner contained in the attached schedule **WITH EFFECT** on and from 1 April 2007.

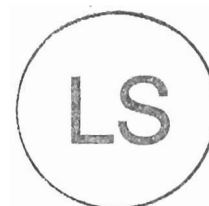
**The Official Seal of the Gas and Electricity Markets Authority here affixed is authenticated by the signature of**



**Robert Hull**

Director – Transmission, Networks

Authorised on behalf of the Authority



30 March 2007

## SCHEDULE

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

#### MODIFICATION OF THE ELECTRICITY TRANSMISSION LICENCE OF SP TRANSMISSION LIMITED

The Authority **HEREBY MODIFIES** the special conditions of the Licence in the following manner:

**(a) To omit, delete and remove the following special conditions:**

- (i) Special condition H (Change co-ordination for the Utilities Act 2000);
- (i) Special condition I (Definitions);
- (ii) Special condition J (Restriction of transmission charges);
- (iii) Special condition J1 ( Provision of information to the system Operator);
- (iv) Special condition J2 (Basic of transmission own charges);
- (v) Special condition J3 (Capital contribution repayment adjustment);
- (vi) Special condition K (Restriction of transmission charges: adjustments);
- (vii) Special condition L (Information to be Provided to the Authority in connection with the charge restriction condition);
- (viii) Special condition L1 (Price Control Review Information);
- (ix) Special condition M (Allowances in respect of Security Costs);
- (x) Special condition N (Duration of charge restriction conditions);
- (xi) Special condition O (Adjustment to Restriction of Transmission Charges due to Transmission Investment for Renewable Generation);
- (xii) Special condition P (Information to be provided to the Authority in connection with Transmission Investment for Renewable Generation);
- (xiii) Special condition Q (Adjustment to Restriction of Transmission Charges due to Transmission Network Reliability Incentive); and
- (xiv) Schedule B (Terms used in the revenue restriction).

**(b) To amend and insert the following special conditions in the Licence:**

**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".

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), ...".

## **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):
  - (a) the making available of transmission owner services
  - (b) 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);
  - (c) the carrying out of works or the provision of maintenance or repair in relation to the licensee's 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
  - (d) 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 (Restriction of transmission charges: revenue from transmission owner services) 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 J2 (Restriction of transmission charges: revenue from transmission owner services).
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 earlier date as may be specified in the directions (being not earlier than the commencement of the relevant year to which the information relating to excluded services last furnished pursuant to the revenue reporting Regulatory Instructions and Guidance directed by the Authority pursuant to standard condition B16 (Price Control Revenue Reporting and Associated Information) related, unless such information, or any such information

provided earlier, was incorrect or misleading in any material respect, 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 C: SUPPLEMENTARY PROVISIONS TO SPECIAL CONDITION  
J3 (Restriction of transmission charges: Transmission Investment for Renewable  
Generation)**

**Beaully-Denny**

Pre construction, contingency and construction costs

<b>project costs (£ 000) 2004 prices</b>	<b>t=p</b>	<b>t=-1</b>	<b>t=0</b>	<b>t=1</b>	<b>t=2</b>	<b>t=n</b>
Forecast pre- construction and contingency costs ( <i>CFIRG<sub>t</sub><sup>i</sup></i> )	2,900	1,600	n/a	n/a	n/a	n/a
Forecast Construction Costs			18,700	26,400	22,200	5,900
Average asset value during construction period ( <i>FTIRGC<sub>t</sub><sup>i</sup></i> )	n/a	n/a	9,350	31,433	54,138	65,378
Depreciation during Construction ( <i>FTIRGDepn<sub>t</sub><sup>i</sup></i> )				935	2,255	3,365

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 ( $ETIRGORAV^i$ )	66,645				
Dep <sup>i</sup>	3,332	3,332	3,332	3,332	3,332
Average asset value during efficiency period ( $ETIRGC^i$ )	64,979	61,647	58,314	54,982	51,650

### South west Scotland reinforcement

#### Pre construction, contingency and construction costs

project costs (£ 000) 2004 prices	t=p	t=-1	t=0	t=1	t=n
Forecast pre-construction and contingency costs ( $CFTRG_t^i$ )	1,700	1,200	n/a	n/a	n/a
Forecast Construction Costs			200	22,800	14,100
Average asset value during construction period ( $FTIRGC_t^i$ )			100	11,595	29,465
Depreciation during Construction ( $FTIRGDepr_t^i$ )				10	1150

#### 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 ( $ETIRGORAV^i$ )	35,940				
Dep <sup>i</sup> <sub>t</sub>	1,797	1,797	1,797	1,797	1,797
Average asset value during efficiency period ( $ETIRGC_t^i$ )	35,042	33,245	31,448	29,651	27,854

## England-Scotland interconnection

### (east coast and west coast reinforcement combined costs)

Pre construction, contingency and construction costs

project costs (£ 000) 2004 prices	t=p	t=0	t=1	t=2	t=3	t=n
Forecast pre-construction and contingency costs ( $CFTIRG_t^i$ )	4,700	n/a	n/a	n/a	n/a	n/a
Forecast Construction Costs		9,400	28,100	24,700	10,100	5,100
Average asset value during construction period ( $FTIRGC_t^i$ )	n/a	4,700	23,215	48,443	63,350	67,588
Depreciation during Construction ( $FTIRGDepn_t^i$ )			470	1,875	3,110	3,615

### 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 ( $ETIRGORAV^i$ )	68,330				
Dep $_t^i$	3,417	3,417	3,417	3,417	3,417
Average asset value during efficiency period ( $ETIRGC_t^i$ )	66,622	63,205	59,789	56,372	52,956

## Sloy

### Pre construction, contingency and construction costs

<b>project costs</b> <b>(£ 000)</b> <b>2004 prices</b>	<b>t=p</b>	<b>t=-1</b>	<b>t=0</b>	<b>t=n</b>
Forecast pre-construction and contingency costs ( $CFIRG_i^i$ )	400	200	n/a	n/a
Forecast Construction Costs			9,400	3,900
Average asset value during construction period ( $FTIRGC_i^i$ )	n/a	n/a	4,700	11,115
Depreciation during Construction ( $FTIRGDepr_i^i$ )				470

### Post construction revenue

<b>Project costs</b> <b>(£ 000)</b> <b>2004 prices</b>	<b>t=n+1</b>	<b>t=n+2</b>	<b>t=n+3</b>	<b>t=n+4</b>	<b>t=n+5</b>
Opening RAV ( $ETIRGORAV^i$ )	12,830				
$Dep_i^i$	642	642	642	642	642
Average asset value during efficiency period ( $ETIRGC_i^i$ )	12,509	11,868	11,226	10,585	9,943

## Output measures

### Beaully-Denny

Project scope	Capability as at 31 March 2005			Forecast capability prior to construction start date			Forecast capability post construction		
	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)
Upgrade from 275 kV to 400 kV									
Denny - Fort Augustus	Circuit does not presently exist.			Circuit does not presently exist.			400	2770	2510
Denny 400/275kV SGT	Circuit does not presently exist.			Circuit does not presently exist.			400/275	1000	1000
Denny – Braco	Circuit does not presently exist.			Circuit does not presently exist.			275	1500	1500
Denny - Lambhill	Circuit does not presently exist.			Circuit does not presently exist.			275	955	760
Denny - Longannet	Circuit does not presently exist.			Circuit does not presently exist.			275	1500	1500
Windyhill - Lambhill - Longannet	275	820	650	275	820	650	275	820	650
Denny - Bonnybridge No.1	Circuit does not presently exist.			Circuit does not presently exist.			275	955	760
Denny - Bonnybridge No.2	Circuit does not presently exist.			Circuit does not presently exist.			275	955	760
Denny 275/132kV SGT	Circuit does not presently exist.			Circuit does not presently exist.			275/132	240	240
Denny - Bonnybridge	Circuit does not presently exist.			Circuit does not presently exist.			132	240	240

Project scope	Capability as at 31 March 2005			Forecast capability prior to construction start date			Forecast capability post construction		
	275	955	760	275	955	760	275	955	760
Windyhill – Neilston	275	955	760	275	955	760	275	955	760
Longannet - Easterhouse	275	953	953	275	953	953	275	1500	1500
Longannet - Clyde's Mill	275	953	953	275	953	953	275	1500	1500
Easterhouse - Clyde's Mill	275	953	953	275	953	953	275	1500	1500

**South west Scotland**

Project scope	Capability as at 31 March 2005			Forecast capability prior to construction start date			Forecast capability post construction		
	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)
Area connection infrastructure									
New Cumnock - Kilmarnock South	Circuit does not presently exist.			Circuit does not presently exist.			275	955	760
New Cumnock - Coylton	Circuit does not presently exist.			Circuit does not presently exist.			275	955	760
New Cumnock 275/132 'SGT1'	Circuit does not presently exist.			Circuit does not presently exist.			275/132	240	240
New Cumnock 275/132 'SGT2'	Circuit does not presently exist.			Circuit does not presently exist.			275/132	240	240
Tongland Quad. Booster	132	90	90	132	90	90	132	190	190

### East coast Interconnection

Project scope	Capability as at 31 March 2005			Forecast capability prior to construction start date			Forecast capability post construction		
	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)
Line upgrade									
Eccles - Stella West No.1	400	1390	1110	400	1390	1110	400	2770	2420
Eccles - Stella West No.2	400	1190	1110	400	1190	1110	400	2770	2420
Gretna - Hawick	132	132	106	132	132	106	132	132	106
Gretna - Junction V - Hawick	Circuit does not presently exist.			Circuit does not presently exist.			132	132	106
Hawick - Galashiels	132	132	106	132	132	106	132	132	106

**West coast Interconnection**

Project scope	Capability as at 31 March 2005			Forecast capability prior to construction start date			Forecast capability post construction		
	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)
Line upgrade	Circuit does not presently exist.			Circuit does not presently exist.					
Strathaven - Coalburn	Circuit does not presently exist.			Circuit does not presently exist.			400	2010	1750
Coalburn - Elvanfoot	Circuit does not presently exist.			Circuit does not presently exist.			400	2010	1750
Elvanfoot - Harker	Circuit does not presently exist.			Circuit does not presently exist.			400	2010	1750
Strathaven - Gretna	Circuit does not presently exist.			Circuit does not presently exist.			400	2010	1750
Gretna - Harker	Circuit does not presently exist.			Circuit does not presently exist.			400	2010	1750
Coalburn 400/132 'SGT1'	Circuit does not presently exist.			Circuit does not presently exist.			400/132	240	240
Coalburn 400/132 'SGT2'	Circuit does not presently exist.			Circuit does not presently exist.			400/132	240	240
Elvanfoot 400/25 'SGT1'	Circuit does not presently exist.			Circuit does not presently exist.			400/25	30	30
Elvanfoot 400/25 'SGT2'	Circuit does not presently exist.			Circuit does not presently exist.			400/25	30	30
Gretna 400/132 'SGT1'	Circuit does not presently exist.			Circuit does not presently exist.			400/132	360	360

Project scope	Capability as at 31 March 2005			Forecast capability prior to construction start date			Forecast capability post construction		
	Gretna 400/132 'SGT2'	Circuit does not presently exist.			Circuit does not presently exist.			400/132	360

**Sloy**

Project scope	Capability as at 31 March 2005			Forecast capability prior to construction start date			Forecast capability post construction		
	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)	Circuit voltage (kV)	Winter rating (MVA)	Summer rating (MVA)
Line reinforcements									
Inverarnan - Dalmally No.1	Circuit does not presently exist.			Circuit does not presently exist.			275	760	620
Inverarnan - Dalmally No.2	Circuit does not presently exist.			Circuit does not presently exist.			275	760	620
Inverarnan - Windyhill No.1	Circuit does not presently exist.			Circuit does not presently exist.			275	760	620
Inverarnan - Windyhill No.2	Circuit does not presently exist.			Circuit does not presently exist.			275	760	620

**(c) To insert the following special conditions in the Licence:**

**Special Condition J1 - Restriction of Transmission Charges: Definitions**

1. In this condition and in special conditions J2 to J11 inclusive and in schedules A to C:

“allowed pass-through items”	means the items referred to in special condition J4 (Restriction of transmission charges: Allowed pass-through items).
“allowed transmission owner revenue”	means: (a) in the relevant year commencing 1 April 2007 and every subsequent relevant year the revenue calculated in accordance with the formula set out in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services); and (b) in the relevant year preceding 1 April 2007, the revenue calculated in accordance with the formula set out in paragraph 1 of special condition J (Restriction of transmission charges) of this licence in the form in which it was in force at 31 March 2007.
"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.
“base transmission revenue”	means the revenue calculated in accordance with the formula set out in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services).

“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 by the licensee as part of its transmission business which in accordance with the principles set out in Part A of Schedule A (Supplementary provisions of the charge restriction conditions), fall to be treated as excluded services.
“logged up costs”	means: <ul style="list-style-type: none"> <li>(a) for the purposes of paragraphs 3 and 4 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services), those capital expenditure and operating expenditure costs incurred by the licensee in respect of those items referred to in those paragraphs; and</li> <li>(b) for the purposes of paragraphs 3 and 7 of special condition J7 (Capital Expenditure Incentive and Safety Net), the capital expenditure incurred by the licensee in respect of those items referred to in those paragraphs.</li> </ul>
"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: <ul style="list-style-type: none"> <li>(a) in England and Wales, the rates payable by the licensee in respect of hereditaments on the Central Rating Lists (England and Wales) compiled under section 52 of the Local Government Finance Act 1988; and</li> <li>(b) in Scotland, the rates payable by the licensee in respect of any land and heritages on the Valuation Rolls compiled under the Local Government Scotland Act 1975, the Local Government etc (Scotland) Act 1994, or any legislation amending or replacing those enactments.</li> </ul>
"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.
"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 immediately 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 ,	<p>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 (Restriction of transmission charges: Transmission Investment for Renewable Generation) with respect to that transmission investment project i:</p> <ul style="list-style-type: none"> <li>(a) <math>t=p</math> means the relevant year commencing on 1 April 2005;</li> <li>(b) <math>t=p</math> to <math>t=-1</math> means the preconstruction period (where <math>p \leq -1</math>);</li> <li>(c) <math>t=0</math> means the relevant year in which construction of that transmission project i commences;</li> <li>(d) <math>t=0</math> to <math>t=n</math> means the construction period;</li> <li>(e) <math>t=n</math> means the relevant year in which that transmission investment project i is commissioned;</li> <li>(f) <math>t=n+1</math> means the relevant year in year 1 post commissioning period for that transmission investment project i and similar expressions shall be construed accordingly.</li> </ul>
"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: revenue from transmission owner services**

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

**Part A: Transmission Owner Revenue Restriction**

- 2 The licensee shall take all appropriate steps within its power to ensure that in any relevant year  $t$ , regulated transmission revenue shall not exceed the allowed transmission owner revenue calculated in accordance with the formula given in paragraph 3 below.

***Formula for Allowed Transmission Owner Revenue ( $TO_t$ )***

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

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

where:

$TO_t$  means allowed transmission owner 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 £147,342,000 (being in 2004/05 prices);

and

$PIT_t$  is the price index adjustment for the relevant year  $t$ , and in the relevant year commencing 1 April 2004 has 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:

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

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 July to December (both inclusive) in relevant year t-2 and the arithmetic average of the Retail Price Index numbers published or determined with respect to the same months in relevant year t-1; and

$X$  shall take the value of two (“2”).

$TIRG_t$  means, for each TIRG relevant year t, the aggregate of the annual revenue allowances for each transmission investment project specified in Schedule C and calculated in accordance with special condition J3 (Restriction of transmission charges: Transmission Investment for Renewable Generation);

$PT_t$  means the revenue adjustment term, 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 (Restriction of transmission charges: Allowed 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 (Restriction of transmission charges: Total incentive revenue adjustment);

$CxIncRA_t$  means the revenue adjustment term, 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). For each relevant year prior to the relevant year commencing 1 April 2012 and for each relevant year after the relevant year commencing 1 April 2012 the term  $CxIncRA_t$  shall take the value zero.

$IE_t$  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 out 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 Ltd	Nil	Nil	Nil	£2,500,000	Nil

$LC_t$  means the revenue adjustment term, whether of a positive or of a zero value, made in the relevant year commencing 1 April 2012 in respect of the full recovery of efficiently incurred logged up costs (adjusted for financing costs) as specified in paragraph 4 of this condition. For each relevant year prior to the relevant year commencing 1 April 2012 and for each relevant year after the

relevant year commencing 1 April 2012 LC<sub>t</sub> shall take the value zero.

K<sub>t</sub> 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<sub>t-1</sub> means, subject to paragraph 3 of special condition J6 (Restriction of transmission charges: adjustments), the regulated transmission revenue in respect of the relevant year t-1, except in the relevant year commencing 1 April 2007 where AR<sub>t-1</sub> shall be the regulated transmission revenue (CR<sub>t</sub>) in the relevant year commencing 1 April 2006 as calculated in accordance with special condition J (Restriction of transmission charges) of this licence in the form in which it was in force at 31 March 2007.

TO<sub>t-1</sub> means the allowed transmission owner revenue in the relevant year t-1 except in the relevant year commencing 1<sup>st</sup> April 2007 where it shall be the maximum regulated transmission revenue (TR<sub>t</sub>) as defined by special condition J (Restriction of transmission charges) of this licence in the form in which it was in force at 31 March 2007.

I<sub>t</sub> means the average specified rate (as defined under those words in special condition J1 (Restriction of Transmission Charges: Definitions)) in the relevant year t.

$PI_t$  means the penalty interest rate in relevant year t which is equal to:

(a) where  $(AR_{t-1} - TO_{t-1})$  has a positive value and  $AR_{t-1}$  exceeds  $TO_{t-1}$  by more than two per cent, the value four; and

(b) otherwise it shall take the value zero.

4 For the purposes of paragraph 3,  $LC_t$  shall comprise those costs incurred and reported to the Authority in accordance with standard condition B15 (Price Control Review Information), 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 21<sup>st</sup> Century Networks programme;

subject to the licensee satisfying the Authority that such costs have been efficiently incurred.

**Special Condition J3 – Restriction of transmission charges: Transmission Investment for Renewable Generation**

**Part A – TIRG Revenue allowance**

1. For the purposes of paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services) 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+20 and shall be determined by the Authority in accordance with paragraph 9.

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

$$IPTRG_t^i = CFTIRG_t^i * ARPI_t$$

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 condition.
- (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 <sub>$i$</sub> ) 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 condition;
  - (v) the amount of any TIRGIncAd <sub>$i$</sub>  <sup>$i$</sup>  income adjustment allowance proposed as a consequence of that event and how this TIRGIncAd <sub>$i$</sub>  <sup>$i$</sup>  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 <sub>$i$</sub>  <sup>$i$</sup>  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 <sub>$i$</sub>  <sup>$i$</sup>  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  $TIRGI_{incAd}^i$  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  $TIRGI_{incAd}^i$  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  $TIRGI_{incAd}^i$  shall be the  $TIRGI_{incAd}^i$  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.

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

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

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  $i$ ,  $FTIRGC^i_t$  shall be zero; and
- (b) where the licensee has been granted planning consent to build the transmission investment project  $i$ ,  $FTIRGC^i_t$  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.

$AFFTIRG^i_t$  means one or more adjustments to the average asset value for the transmission investment project  $i$  for the TIRG relevant years  $t=0$  to  $t=n$  ( $FTIRGC^i_t$ ) as a result of a TIRG asset value adjusting event and each adjustment shall be determined by the Authority in accordance with paragraph 6.

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

$FTIRGDepn^i_t$  means the depreciation value for the transmission investment project  $i$  for each of the TIRG relevant years  $t=0$  to  $t=n$  and shall be determined as follows:

- (a) where the licensee has not been granted planning consent to build the transmission investment project  $i$ ,  $FTIRGDepn^i_t$  shall be zero; and
- (b) where the licensee has been granted planning consent to build the transmission investment project  $i$ ,  $FTIRGDepn^i_t$  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.

$AFFTIRGDepn^i_t$  means one or more adjustments to the depreciation value for the transmission investment project  $i$  for the TIRG relevant years  $t=0$  to  $t=n$  ( $FTIRGDepn^i_t$ ) 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  $t=n$  ( $FTIRGC_i^i$ );
  - (ii) are expected to be efficiently incurred or saved; and
  - (iii) cannot otherwise be recovered under the TIRG revenue allowance provided by this condition.
- (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:
    - (aa) **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
    - (bb) is necessary to comply with technical, engineering or planning constraints in respect of the transmission investment project  $i$  that are identified by the licensee during preconstruction work.

- (c) Where the licensee considers, and can provide supporting evidence that, a TIRG asset value adjusting event has occurred in relation to the transmission investment project  $i$ , then the licensee shall give notice of that event to the Authority as soon as is reasonably practicable after that event has occurred and in any event prior to TIRG relevant year  $t=0$  (or at such later date as the Authority notifies to the licensee for the purposes of this subparagraph).
- (d) A notice provided under subparagraph (c) shall be accompanied by a statement from independent technical advisors setting out the additional preconstruction works / amended scope of construction works (as appropriate) and a statement from independent auditors setting out that in their opinion the notice fairly presents the costs and expenses expected to be incurred or saved by the additional preconstruction works / amended scope of construction works (as appropriate) and shall give particulars of:
- (i) the TIRG asset value adjusting event to which the notice relates and the reason(s) why the licensee considers that event to be a TIRG asset value adjusting event;
  - (ii) the costs and/or expenses that the licensee can demonstrate are expected to be incurred or saved by that event and how the amount of those costs and/or expenses have been calculated;
  - (iii) the amount of any material increase or decrease in the average asset value for the transmission investment project  $i$  for TIRG relevant years  $t=0$  to  $t=n$  ( $FTIRGC_t$ ) that the licensee can demonstrate is expected to occur as a result of that event and how the amount of that increase or decrease has been calculated;
  - (iv) the reasons why the licensee considers that the costs and/or expenses can not otherwise be recovered under the TIRG revenue allowance provided by this condition;
  - (v) the amount of any  $AFFTIRG_t^i$  adjustment proposed as a consequence of that event and how this  $AFFTIRG_t^i$  adjustment has been calculated;

- (vi) the amount of any increase or decrease in the depreciation value for the transmission investment project  $i$  for the TIRG relevant years  $t=0$  to  $t=n$  ( $FTIRGDepn^i$ ) 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  $AFFTIRGDepn^i$  adjustment proposed as a consequence of that event and how this  $AFFTIRGDepn^i$  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;
  - (iii) a  $AFFTIRG^i$  adjustment in respect of the transmission investment project  $i$ ; and
  - (iv) a  $AFFTIRGDepn^i$  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  $AFFTIRG^i$  and  $AFFTIRGDepn^i$  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  $AFFTIRG_i^i$  and  $AFFTIRGDepn_i^i$  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  $AFFTIRG_i^i$  and  $AFFTIRGDepn_i^i$  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  $AFFTIRG_i^i$  and  $AFFTIRGDepn_i^i$  shall be the  $AFFTIRG_i^i$  and  $AFFTIRGDepn_i^i$  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 asset value 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  $ETIRG_i^i$  shall be calculated in accordance with the following formula:

$$ETIRG_i^i = (CCTIRG \times (ETIRGC_i^i \times SAFRTIRG^i) \times ARPI_i) + (Dep_i^i \times SAFRTIRG^i \times ARPI_i)$$

where:

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

$ETIRGC_i^i$  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<sup>i</sup> 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<sub>t</sub>) 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:

$$\text{SAFRTIRG}^i = [\text{SAFTIRG}^i / \text{ETIRGORAV}^i]$$

where:

SAFTIRG<sup>i</sup> 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<sup>i</sup> 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.

shall have the meaning given in paragraph 3.

Dep<sup>i</sup> 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 SAFRTIRG<sup>i</sup> 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 paragraph 10.
- (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 <sup>$i$</sup>  adjustment);
  - (iv) whether an adjustment has been made to the depreciation value for the transmission investment project  $i$  for the TIRG relevant years  $t=0$  to  $t=n$  under paragraph 6 (AFFTIRGDepn <sup>$i$</sup>  adjustment); and
  - (v) any other information the Authority considers to be relevant to the determination.
- (c) Where the Authority makes a determination under this paragraph, the Authority shall publish a notice stating the SAFTIRG <sup>$i$</sup>  opening asset value for the transmission investment project  $i$  and the reasons for the determination.
- (d) The Authority may revoke a determination made under this paragraph with the consent of the licensee.

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

**Part B: Information to be provided to the Authority in connection with Transmission Investment for Renewable Generation**

10 For each transmission investment project  $i$  specified in Schedule C, the licensee shall provide the Authority with the following:

- (a) during or prior to TIRG relevant year  $t=0$ , a preconstruction technical report, accompanied by a statement from independent technical advisors, setting out:
  - (i) the  $TIRG_{t=0}$  output measures assessed against the forecast output measures in Schedule C for the transmission investment project  $i$ ; and
  - (ii) the  $TIRG_{t=n}$  forecast output measures assessed against the forecast output measures in Schedule C for the transmission investment project  $i$ ;
- (b) not later than three months after the end of each of the TIRG relevant years  $t=p$  to  $t=0$  (or such later date as the Authority notifies to the licensee for the purposes of this subparagraph), a preconstruction expenditure report, accompanied by an auditor's statement, setting out an itemised report of the preconstruction expenditure incurred for the transmission investment project  $i$  during that TIRG relevant year  $t$ ;
- (c) not later than three months after the end of each of the TIRG relevant years  $t=1$  to  $t=n$  (or such later date as the Authority notifies to the licensee for the purposes of this subparagraph), a construction expenditure report accompanied by an auditor's statement, setting out an itemised report of the construction expenditure incurred for the transmission investment project  $i$  during that TIRG relevant year  $t$ ; and
- (d) not later than three months after the end of TIRG relevant year  $t=n$  (or such later date as the Authority notifies to the licensee for the purposes of this subparagraph):
  - (i) a post construction expenditure report, accompanied by an independent auditor's statement, setting out the final aggregate transmission investment expenditure for the transmission investment project  $i$ , assessed against the average asset value for the transmission investment project  $i$  for TIRG relevant years  $t=0$  to  $t=n$  ( $FTIRGC_t$ ); and

- (ii) a post construction technical report, accompanied by a construction completion certificate from independent technical advisors, setting out the actual capability of the transmission investment project i and the extent to which the transmission investment project i complies with the output measures specified in Schedule C.

11 The Authority may require the licensee to provide it with such information in such form and within such time as it may reasonably request which is, in the Authority's opinion, necessary in order to carry out any of its functions under this condition.

12 (a) The output measures specified in Schedule C may be amended in accordance with this paragraph.

(b) For the purpose of this paragraph, an output measures adjusting event means a relevant amendment to the scope of the construction works (as defined in paragraph (6)(b)(ii)) of this condition which the Authority is satisfied is expected to cause a material change in the output measures specified in schedule C for the transmission investment project i.

(c) Where the licensee considers, and can provide supporting evidence that, an output measures 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 amended scope of construction works and shall give particulars of:

- (i) **the output measures adjusting event to which the notice relates** and the reason(s) why the licensee considers that event to be an output measures adjusting event;
- (ii) output measures adjustment proposed as a consequence of that event and how this output measures adjustment has been calculated; and
- (iii) 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 an output measures adjusting event has occurred in respect of the transmission investment project i; and**
  - (ii) where the Authority determines that a output measures adjusting event has occurred in respect of the transmission investment project i, an output measures adjustment in respect of the transmission investment project.
- (f) Where the Authority makes a determination under this paragraph, the Authority shall publish a notice stating the output measures adjustment 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.

**Special Condition J4 – Restriction of transmission charges: Allowed pass-through items**

1. The purpose of this condition is to provide for revenue adjustments to reflect certain costs that can be passed through to consumers as part of allowed transmission owner revenue.
2. For the purposes of paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services)  $PT_t$  is derived from the following formula:

$$PT_t = LF_t + RB_t + IAT_t$$

Where

$LF_t$  means the licence fee revenue adjustment term, whether of a positive or of a negative value, as derived from the formula set out in paragraph 3.

$RB_t$  means the network rates revenue adjustment term, whether of a positive or of a negative value, as derived from the formula set out in paragraphs 4 to 6.

$IAT_t$  means the income adjusting event revenue adjustment term, whether of a positive or of a negative value, and shall be determined in accordance with paragraphs 7 to 9

**Formula for the Licence Fee Revenue Adjustment ( $LF_t$ )**

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

$$LF_t = LP_t - LA_t$$

Where:

$LP_t$  is an amount in respect of licence fee payments and means the amount equal to the payments made by the licensee, in the relevant year  $t$ , in

accordance with its obligations set out in standard licence condition A4 (Payments to the Authority); and

$LA_t$  is the amount of the licence fee payments allowance and has the value zero.

**Formula for the Network Rates Revenue Adjustment ( $RB_t$ )**

4. For the purposes of paragraph 2, subject to paragraph 5 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	2010	2011
$RV_t$	£12,500,000	£12,500,000	£12,500,000	£12,500,000	£12,500,000

$PIT_t$  shall take the same meaning as given in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services)

5. From the relevant year commencing 1 April 2010  $RB_t$  shall take the value zero, unless otherwise directed by the Authority on or before 31 March 2010.
6. For the purposes of paragraph 5 of this condition, the Authority may direct that, in respect of the relevant year commencing 1 April 2010 and each subsequent relevant year,  $RB_t$  be calculated in accordance with the formula set out in paragraph 4 of this condition where the Authority is satisfied that the licensee has used reasonable endeavours to minimise the amount payable for those years in respect of network rates.

***Formula for a revenue adjustment in respect of an Income Adjusting Event (IAT)***

- (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 is approved by it as such in accordance with paragraph 9 of this licence condition

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

- (b) For the purpose of the relevant year t commencing on 1 April 2007 and ending on 31 March 2008 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 7(a) above:


8. (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 8(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 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 8(b)(i) to 8(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 8(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 8(f)(i) is necessary for the purposes of enabling the relevant parties to fully assess the event to which the notice relates.
9. (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 8(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 amounts should apply.
- (b) In relation to the relevant year t, the allowed income adjustment (IAT<sub>t</sub>) shall be:
  - (i) the value determined by the Authority under paragraph 9(a) above; or
  - (ii) if the Authority has not made a determination under paragraph 9(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 8(b)(iii); or
  - (iii) in all other cases zero, including situations where the Authority has not made a determination under paragraph 9(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 8(b) and/or 8(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 8(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.

**Special Condition J5 - Restriction of transmission charges: Total incentive revenue adjustment)**

1. For the purposes of paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services),  $IP_t$  is derived from the following formula:

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

where

$RI_t$  means the revenue adjustment term, 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 in accordance with part 1 of this condition.

$RevDrvSP_t$  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 term 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 term 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 term 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:

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

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 be the value of  $PR_t$  calculated in accordance with the formula specified in paragraph 3 of Special Condition J2 (Restriction of transmission charges: revenue from transmission owner services) 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 January 2006 to 31 March 2007	1 April 2007 to 31 March 2008	1 April 2008 to 31 March 2009	1 April 2009 to 31 March 2010	1 April 2010 to 31 March 2011	1 April 2011 to 31 March 2012
<b><math>RILT_y</math></b>	<b>10</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>

$RIUT_y$  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 y	1 January 2006 to 31 March 2007	1 April 2007 to 31 March 2008	1 April 2008 to 31 March 2009	1 April 2009 to 31 March 2010	1 April 2010 to 31 March 2011	1 April 2011 to 31 March 2012
<b><math>RIUT_y</math></b>	<b>12</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>

$RIUPA_y$  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 January 2006 to 31 March 2007	1 April 2007 to 31 March 2008	1 April 2008 to 31 March 2009	1 April 2009 to 31 March 2010	1 April 2010 to 31 March 2011	1 April 2011 to 31 March 2012
<b><math>RIUPA_y</math></b>	<b>0.50%</b>	<b>0.50%</b>	<b>0.50%</b> (subject to	<b>0.50%</b> (subject to	<b>0.50%</b> (subject to paragraph	<b>0.50%</b> (subject to paragraph

			paragraph 3)	paragraph 3)	3)	3)
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$RIDPA_y$  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 $y$	1 January 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
$RIDPA_y$	-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 January 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 specified in the relevant table in paragraph 2 above before 1 April 2009 or such later date as the Authority may direct. After 1 April 2009 or such later date as the Authority

may direct, RIUPAy shall take the value specified in the relevant table in paragraph 2 above for relevant years during which the licensee implements an approved network output measures methodology in accordance with standard condition B17 (Network Output Measures), and shall take the value zero for relevant years during which the licensee fails to implement the methodology, unless otherwise directed by the Authority.

4. For the purposes of this 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 (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 7 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 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 works to accommodate generation seeking connection in respect of relevant year  $t$  (RevDrvSP <sub>$t$</sub> ) shall be derived in accordance with this condition, where:

relevant generation

capacity

means the cumulative amount of generation connection capacity (but excluding high cost

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

generation connection  
capacity

means the connection capacity that transmission reinforcement works have been contracted and constructed to deliver in the relevant Transmission Operator Connection Agreements between the licensee and the system operator pursuant to the STC;

high cost project

means local infrastructure works where the licensee, estimates, using reasonable endeavours, that the capital expenditure incurred in completing the relevant set of local infrastructure works will exceed £163,000 (in 2004/05 prices) per megawatt of predicted capacity;

local infrastructure works

means sole user triggered transmission reinforcement works associated with the connection of new or additional generation capacity 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) 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 local infrastructure works as specified in relevant agreements between the licensee and the system operator pursuant to the STC.

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

$$RevDrvSP_t = \left[ RDDep_t + \left( \left( \frac{RDO_t + RDC_t}{2} \right) \times RD Ret \right) + (RDGAV_t \times 0.01) \right] \times PIT_t$$

where:

$RDDep_t$  means an allowance, expressed in 2004/05 prices, for depreciation in relevant year t and shall be calculated in accordance with the formula below:

$$RDDep_t = 0.05 \times RDGAV_t$$

$RDO_t$  means the value, expressed in 2004/05 prices, of the revenue driver RAV on 1 April of the relevant year t and shall, in respect of the relevant year commencing 1 April 2007 take a value of zero. In respect of the relevant year commencing 1 April 2008 and each subsequent relevant year t,  $RDO_t$  shall be calculated in accordance with the following formula:

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

$RDC_t$  means the value, expressed in 2004/05 prices, of the revenue driver RAV on 31 March of the relevant year t. In the relevant year commencing 1 April 2007 and in each subsequent relevant year  $RDC_t$  shall be calculated in accordance with the following formula:

$$RDC_t = RDO_t + RAdd_t - RDDep_t$$

RDAdd<sub>t</sub> means the total additions, expressed in 2004/05 prices, to the revenue driver RAV that occur in relevant year t and shall be calculated in accordance with the formula in paragraph 12 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 6.25% for all relevant years;

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

$$RDGAV_t = \sum_{p=t-z}^{p=t-1} RDAdd_p$$

where:

p shall mean the relevant year commencing 1 April;

RDAdd<sub>p</sub> shall take the value of RDAdd<sub>t</sub> for relevant year t=p, where RDAdd<sub>t</sub> shall take the same meaning as given in the definition of RDC<sub>t</sub> above;

p=t-z means the relevant year commencing 1 April 2004;  
and

PIT<sub>t</sub> shall take the same meaning as given in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services).

12. The term RDAdd<sub>t</sub> shall be calculated in accordance with the following conditions:

If  $RG_{t-2} \leq 1734 < RG_{t-1}$  then:

$$\begin{aligned}
 RDAdd_t = & \left( \frac{RG_{t-1} - 1734}{RG_{t-1} - RG_{t-2}} \right) \times (0.75 \times (RDCLCpx_t - (1 + RDRet) \times RDCLCpx_{t-1})) \\
 & + (RG_{t-1} - 1734) \times ((LRD \times 1.13) \times 0.25) \\
 & + 0.75 \times (RDCDCpx_t - (1 + RDRet) \times RDCDCpx_{t-1}) \\
 & + \sum_c (DFlag_{c,t} \times ((DRD_c \times 1.13) \times 0.25)) \\
 & + \sum_h \frac{RDHCP_{h,t}}{PIT_t}
 \end{aligned}$$

If  $1734 < RG_{t-2} \leq RG_{t-1}$ , then:

$$\begin{aligned}
 RDAdd_t = & 0.75 \times (RDCLCpx_t - (1 + RDRet) \times RDCLCpx_{t-1}) \\
 & + (RG_{t-1} - RG_{t-2}) \times ((LRD \times 1.13) \times 0.25) \\
 & + 0.75 \times (RDCDCpx_t - (1 + RDRet) \times RDCDCpx_{t-1}) \\
 & + \sum_c (DFlag_{c,t} \times ((DRD_c \times 1.13) \times 0.25)) \\
 & + \sum_h \frac{RDHCP_{h,t}}{PIT_t}
 \end{aligned}$$

In all other cases:

$$\begin{aligned}
 RDAdd_t = & 0.75 \times (RDCDCpx_t - (1 + RDRet) \times RDCDCpx_{t-1}) \\
 & + \sum_c (DFlag_{c,t} \times ((DRD_c \times 1.13) \times 0.25)) \\
 & + \sum_h \frac{RDHCP_{h,t}}{PIT_t}
 \end{aligned}$$

where:

$RG_{t-1}$  means the relevant generation capacity as at 31 March of relevant year t-1;

$RG_{t-2}$  means the relevant generation capacity as at 31 March of relevant year t-2;

RDCLCp<sub>x<sub>t</sub></sub> means the cumulative capital expenditure, expressed in 2004/05 prices, (adjusted for financing costs) incurred by the licensee prior to 1 April of relevant year t in respect of local RD qualifying projects for relevant year t, and shall be calculated in accordance with the formula in paragraph 14;

RDCLCp<sub>x<sub>t-1</sub></sub> is equal to the value of RDCLCp<sub>x<sub>t</sub></sub> for the preceding relevant year;

local RD qualifying project means local infrastructure works being undertaken by the licensee:

- (a) which result, or have resulted, in the volume of relevant generation capacity first exceeding 1734 megawatts; or
- (b) will be, or have been, completed and commissioned after the point at which the volume of relevant generation capacity is equal to or exceeds 1734 megawatts;

to provide generation connection capacity where the licensee has, or will have, prior to 1 April of relevant year t, committed to spend not less than 25 per cent of the capital expenditure that it estimates, using reasonable endeavours, will be incurred in completing the set of relevant local infrastructure works;

LRD shall take the value £52,000 (expressed in 2004/05 prices);

$RDCDCpx_t$	means the cumulative capital expenditure, (expressed in 2004/05 prices) incurred by the licensee prior to 1 April of relevant year t in respect of deep RD qualifying projects;
$RDCDCpx_{t-1}$	is equal to the value of $RDCDCpx_t$ for the preceding relevant year;
deep RD qualifying project	means deep reinforcement works being undertaken by the licensee: <ul style="list-style-type: none"> <li>(a) which are relevant to the conditions set out in Table 1 of paragraph 13, and</li> <li>(b) for which the licensee will have, prior to 1 April of relevant year t, committed to spend not less than 25 per cent of the capital expenditure that it estimates, using reasonable endeavours, will be incurred in completing these works;</li> </ul>
$DFlag_{c,t}$	shall take the value 1 if deep reinforcement project c was completed and commissioned in the relevant year t, and otherwise it shall take the value 0;
$DRD_c$	shall take the corresponding value (expressed in 2004/05 prices) in Table 1 of paragraph 13 in respect of each specified area c; and
$RDHCP_{h,t}$	means the capital expenditure incurred by the licensee during relevant year t in respect of high cost project h, as defined in paragraph 10.

13. **Table 1**

c	Conditions	Thresholds (MW)	DRD <sub>c</sub> (£m, 2004/05 prices)
	This table is deliberately blank subject to the provisions of paragraph 13		

The Authority may direct changes to Table 1 where the licensee provides a report to the Authority setting out how material changes in flows on the licensee's network or other relevant factors have resulted in change in the costs of deep reinforcement on its network and an up-to-date estimate of the efficient costs of relevant works. Following receipt of such report, the Authority will consult with interested parties prior to issuing a direction.

14. RDCLCpx<sub>t</sub> shall be calculated in accordance with the following formula:

$$RDCLCpx_t = \sum_i \sum_{s=T-z}^{s=T-1} \left[ \left( \frac{1}{PIT_s} \right) \times \left( RDALCpx_{i,s} \times (1 + RD Ret)^{(T-s)+0.5} \right) \right]$$

where

**i** refers to each set of local infrastructure works which is a local RD qualifying project for year t;

**s** refers successively to each relevant year from that commencing 1 April 2005 to that preceding relevant year t;

RDALCpx<sub>i,s</sub> means the capital expenditure incurred by the licensee during relevant year s on project i ;

shall take a value equal to the calendar year in which relevant year t ends, e.g. for relevant year commencing 1 April 2007 the value of T shall be 2008;

T-z refers to the relevant year commencing 1 April 2005;

S shall take a value equal to the calendar year in which relevant year s starts e.g. for relevant year 2007/08 the value of S shall be 2007; and

PIT<sub>s</sub> shall take the value of PIT<sub>t</sub> for relevant year t=s, where PIT<sub>t</sub> shall take the same meaning as given in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services).

15. RDCDCpx<sub>t</sub> shall be calculated in accordance with the following formula:

$$RDCDCpx_t = \sum_c \sum_{x=T-p}^{x=T-1} \left[ \left( \frac{1}{PIT_x} \right) \times \left( RDADCpx_{c,x} \times (1 + RD Ret)^{(T-s)+0.5} \right) \right]$$

where

c refers to each set of deep reinforcement works which is a deep RD qualifying project for year t;

refers successively to each relevant year from that commencing 1 April 2007 to relevant year t;

T-p refers to the relevant year commencing 1 April 2007;

shall take a value equal to the calendar year in which relevant year t ends, e.g. for relevant year commencing 1 April 2007 the value of T shall be 2008;

S shall take a value equal to the calendar year in which relevant year x starts e.g. for relevant year 2007/08 the value of S shall be 2007;

RDADC<sub>p<sub>x,c,x</sub></sub> means the annual capital expenditure incurred by the licensee in relevant year x on project c; and

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

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

17. For the purposes of paragraph 1, IFI<sub>t</sub> is derived for the relevant year t from the formula:

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

where:

IFIE<sub>t</sub> means the eligible IFI expenditure for the relevant year t as reported in the IFI annual report for that year.

PR<sub>t</sub> means the base transmission revenue in year t as determined in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services);

TIRG<sub>t</sub> means the annual revenue allowance in year t as determined in special condition J3 (Restriction of transmission charges: Transmission Investment for Renewable Generation);

ptr<sub>t</sub> is the pass-through factor applicable for the relevant year t and shall in the relevant year commencing 1 April 2007 and each subsequent relevant year take the value 0.8; and

KIFI<sub>t</sub> is the carry forward in relation to the IFI scheme as set out in the IFI annual report for relevant year t-1, and is calculated from the following formula:

If  $IFIE_{t-1} \leq 0.5 \times \max(\pounds 500,000, (0.005 \times (PR_{t-1} + TIRG_{t-1})))$  :

$$KIFI_t = 0.5 \times \max(\pounds 500,000, (0.005 \times (PR_{t-1} + TIRG_{t-1})))$$

If  $IFIE_{t-1} > 0.5 \times \max(\pounds 500,000, (0.005 \times (PR_{t-1} + TIRG_{t-1})))$  and

$IFIE_{t-1} \leq \max(\pounds 500,000, (0.005 \times (PR_{t-1} + TIRG_{t-1})))$  :

$$KIFI_t = \max(\pounds 500,000, (0.005 \times (PR_{t-1} + TIRG_{t-1}))) - IFIE_{t-1}$$

If  $IFIE_{t-1} > \max(\pounds 500,000, (0.005 \times (PR_{t-1} + TIRG_{t-1})))$  :

$$KIFI_t = 0$$

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

18. 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 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.

in each case above, all as more fully set out in the revenue reporting Regulatory Instructions and Guidance for the time being in force under standard condition B16 (Price Control Revenue Reporting and Associated Information) in relation to the IFI scheme.

#### **Part 4 - adjustment to restriction of transmission charges due to SF<sub>6</sub> incentive**

19. The purpose of this condition is to provide for adjustments to allowed revenue to reflect performance of the licensee in relation to its Sulphur Hexafluoride (SF<sub>6</sub>) incentive scheme.
20. The licensee shall within 3 months of receiving a notice from the Authority submit to the Authority a leakage rate of SF<sub>6</sub> methodology statement consistent with best industry practice, setting out the methodology by which the licensee will determine the leakage rate of SF<sub>6</sub> gas, required for the calculation of the actual leakage rate of SF<sub>6</sub> gas, ALK<sub>t</sub>, and the target leakage rate of SF<sub>6</sub> gas, TLK<sub>t</sub>.
21. Unless the Authority directs otherwise within 2 months of the date on which the licensee submits the statement to the Authority in accordance with paragraph 20, the licensee shall take all reasonable steps to apply the methodology set out in that statement.
22. Before revising the methodology referred to in paragraph 20 the licensee shall submit to the Authority a copy of the proposed revisions to the methodology.
23. Unless the Authority directs otherwise within 1 month of the Authority receiving any proposed revisions to the methodology under paragraph 22, the licensee shall take all reasonable steps to apply the methodology revised in accordance with such proposed revisions.

24. The provisions of paragraphs 26 to 31 of this special licence condition shall not take effect until such time as directed by the Authority.
25. For the purposes of paragraph 1 of this special condition,  $SFI_t$  shall take the value zero until such time as the Authority directs that the provisions of paragraphs 26 to 31 shall take effect.
26. For the purposes of paragraph 1, where  $ALK_t < TLK_t$ ,  $SFI_t$  shall be calculated in accordance with the following formula:

$$SFI_t = 0.002 \times PR_t$$

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

Where:

$PR_t$  means the licensee's base transmission revenue, as defined in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services)

$ALK_t$  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 revenue reporting Regulatory Instructions and Guidance issued in accordance with standard condition B16 (Price Control Revenue Reporting and Associated Information)

$TLK_t$  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 <sub>t</sub>	[]	[]	[]	[]	[]
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27. Where:

- (a) the licensee considers that any event on the licensee's transmission system that causes leakage of SF<sub>6</sub> gas has been wholly or partially caused by an exceptional event;
- (b) the licensee has notified the Authority of such event within 14 days of its occurrence;
- (c) the licensee has provided details of the exceptional event and such further information, if any, as the Authority may require in relation to such an exceptional event; and
- (d) the Authority is satisfied that the event notified to it under sub-paragraph (b) is an exceptional event

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

28. For the purpose of paragraph 27, any 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 from resulting in the leakage of SF<sub>6</sub> and to mitigate its effect (both in anticipation and subsequently).

29. A direction under paragraph 27 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.

30. For the purpose of paragraph 27, an “exceptional event” means an event or circumstance that is beyond the reasonable control of the licensee and which results in or causes the leakage of SF<sub>6</sub> gas and includes (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), 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 provided that lack of funds shall not be interpreted as a cause beyond the reasonable control of the licensee.
31. Without prejudice to paragraph 30, an “exceptional event” may include circumstances where a significant danger to the public gives rise to the licensee prioritising health and safety over the reduction of leakage of SF<sub>6</sub> gas at a particular site.

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

32. For the purposes of paragraph 1, RCI<sub>t</sub> is derived for the relevant year t from the formula:

$$RCI_t = ARCI_t \times PIT_t$$

where:

ARCI<sub>t</sub> 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 <sub>t</sub>	Nil	Nil	Nil	Nil	Nil

PIT<sub>t</sub> shall take the same meaning as given in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services).

### **Special Condition J6: Restriction of transmission charges: adjustments**

If, in respect of any relevant year, the regulated transmission revenue exceeds the allowed transmission owner 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: revenue from transmission owner services), 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 allowed transmission owner 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 allowed transmission owner revenue is more than 4 per cent of the allowed transmission owner 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: revenue from transmission owner services), such that the regulated transmission revenue would not be likely, in the judgment of the Authority, to exceed the allowed transmission owner 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 allowed transmission owner 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: revenue from transmission owner services) 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: Restriction of transmission charges: 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: revenue from transmission owner services)  $CxIncRA_t$  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:

$$CxIncRA_t = \sum_n [CIR_n \times PVF_n \times LVN_n] \times PIT_t \\ + \sum_n [(CIR_n - 0.25) \times PVF_n \times (IncDif_n - LVN_n - RDAdd_n)] \times PIT_t$$

where:

$n$  means the relevant year  $n$  such that the first relevant year  $n$  shall be the year commencing on 1 April 2007 and accordingly the fifth relevant year  $n$  is the year commencing on 1 April 2011;

$CIR_n$  means the capital expenditure incentive sharing factor, in respect of the proportion of under or overspend against the capital expenditure allowance for the relevant year  $n$  that is borne by the licensee within this price control and shall take the value set out in the table below:

Relevant year commencing 1 April:	2007	2008	2009	2010	2011
$CIR_n$	0.3981	0.3184	0.2312	0.1357	0.0313

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

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

$LVN_n$  means the change in the capital expenditure allowance for relevant year n as a consequence of actual volumes of generation on 31 March 2012 being different from the deemed baseline value of 1734 MW, and shall be calculated in accordance with paragraph 6 of this condition;

$IncDif_n$  represents the difference, expressed in 2004/05 prices, between the adjusted efficient capital expenditure and the base capital expenditure allowance in respect of the relevant year n and shall be calculated in accordance with the following formula:

$$IncDif_n = \left( \frac{ACx_n}{PIT_n} \right) - BCx_n$$

where:

$ACx_n$  is the adjusted efficient capital expenditure incurred by the licensees in respect of the relevant year n and shall be calculated in accordance with paragraph 3 of this condition;

$PIT_n$  shall take the value of  $PIT_t$  for relevant year  $t=n$ , where  $PIT_t$  shall take the same meaning as given in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services);

$BCx_n$  means, subject to Part 2 (Capital Expenditure Safety Net) of this condition, the base capital expenditure allowance, expressed in 2004/05 prices, in respect of the relevant year  $n$  and shall take the value set out in the table below:

Relevant year commencing 1 April:	2007	2008	2009	2010	2011
$BCx_n$	£112,600,000	£97,300,000	£99,000,000	£144,700,000	£121,900,000

$RDAdd_n$  shall take the value of  $RDAdd_t$  for relevant year  $t=n$ , where  $RDAdd_t$  shall take the same meaning as given in paragraph 11 of special condition J5 (Restriction of transmission charges: Total incentive revenue adjustment); and

$PIT_t$  shall take the same meaning as given in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services)

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

$$ACx_n = Cx_n - ESCx_n - LCx_n - TP_n - DCx_n$$

where:

$Cx_n$  means the capital expenditure, expressed net of pensions contributions incurred by the licensee in the relevant year  $n$ , as reported to the Authority pursuant to standard condition B15 (Price Control Review Information). Such expenditure shall not include capital expenditure incurred by the licensee in the relevant year  $n$  in respect of the transmission investment projects identified in Schedule C to special condition J3

(Restriction of transmission charges: Transmission Investment for Renewable Generation);

ESC<sub>x<sub>n</sub></sub> means that amount of load related capital expenditure incurred by the licensee in the provision of excluded services as set out in Schedule A in the relevant year n less any contributions to the capital cost of that expenditure made by or on behalf of the persons to whom such excluded services are provided and as reported to the Authority pursuant to standard condition B15 (Price Control Review Information);

LC<sub>x<sub>n</sub></sub> means that amount of capital expenditure incurred by the licensee in the relevant year n that falls to be treated as logged up capital expenditure as specified in paragraph 7 of this condition and as reported to the Authority pursuant to standard condition B15 (Price Control Review Information);

TP<sub>n</sub> means the capital expenditure efficiently incurred in formula year n 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 and as reported to the Authority pursuant to standard condition B15 (Price Control Review Information);

DC<sub>x<sub>n</sub></sub> means that amount of capital expenditure incurred by the licensee in respect of the relevant year n in respect of which the Authority has issued a direction on or before 31 March 2012 in respect of the relevant years from 1 April 2007 to 31 March 2011, and on or before 31 March 2017 in respect of the relevant year commencing 1 April 2011, that such expenditure is deemed inefficient in accordance with paragraphs 4 and 5 of this condition. It shall take the value zero unless the Authority directs otherwise.

4. For the purposes of paragraph 3, before issuing a direction that certain capital expenditure be deemed inefficient, the Authority shall issue a notice to the licensee, specifying:

- (a) the amount of capital expenditure that the Authority proposes to deem to be inefficient;
  - (b) the reasons why the Authority considers that the capital expenditure referred to in sub-paragraph (a) is inefficient;
  - (c) the date, being of not less than 28 days from the date of the notice, by which the licensee may make representations to the Authority in respect of the notice; and
  - (d) the date by which the Authority intends to make a direction.
5. The Authority shall have regard to any representations made by the licensee in response to the notice referred to in paragraph 4 before making any direction in respect of paragraph 3.
6. For the purposes of paragraph 2,  $LVN_n$  shall be calculated in accordance with the following formula:

$$LVN_n = \left\{ UCA_1 \times \frac{\min[0, (GC_z - 1734)]}{5} \right\} + LVWIP_n$$

where:

$UCA_1$  shall take a value of £54,000 (in 2004/05 prices);

$GC_z$  means the total amount of relevant generation on 31 March 2012;

$LVWIP_n$  means the adjustment in the capital expenditure allowance in respect of relevant year n relative to the base capital expenditure allowance ( $BCX_n$ ) in respect of works carried out by the licensee which would otherwise be included within  $RDAdd_n$  or in relation to providing generation connection capacity  $GC_z$  had the relevant additional volume been provided (“work in progress”). Where applicable, the Authority shall direct by 31 March 2012 an appropriate positive value for this adjustment. Before such direction is made, this adjustment shall take the value zero; and

“relevant

generation

capacity” shall have the same meaning as given in Part 2 of special condition J5 (Restriction of transmission charges: Total incentive revenue adjustment).

7. For the purposes of paragraph 3,  $LCx_n$  shall comprise those costs incurred, and reported to the Authority in accordance with standard condition B15 (Price Control Review Information), 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 21<sup>st</sup> Century Networks programme;

subject to the licensee satisfying the Authority that such costs have been efficiently incurred.

8. 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**

9. For the purposes of this condition, relevant capital expenditure ( $RelCx_t$ ) in respect of the relevant year  $t$  shall be calculated as follows:

$$RelCx_t = \frac{Cx_t - ESCx_t - LCx_t}{PIT_t} - RDAdd_t$$

where:

$Cx_t$  shall take the value of  $Cx_n$  for relevant year  $n=t$ , where  $Cx_n$  shall take the same meaning as given in paragraph 3 of this condition;

$ESCx_t$  shall take the value of  $ESCx_n$  for relevant year  $n=t$ , where  $ESCx_n$  shall take the same meaning as given in paragraph 3 of this condition;

$LCx_t$  shall take the value of  $LCx_n$  for relevant year  $n=t$ , where  $LCx_n$  shall take the same meaning as given in paragraph 3 of this condition;

$PIT_t$  shall take the same meaning as given in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services); and

$RDAdd_t$  shall take the same meaning as given in paragraph 11 of special condition J5 (Restriction of transmission charges: Total incentive revenue adjustment)..

10. 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:

$$RelAC_t = BCx_t$$

where

$BCx_t$  shall take the value of  $BCx_n$  for relevant year  $n=t$ , where  $BCx_n$  shall take the same meaning as given in paragraph 2 of this condition.

11. 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  $RelCx_t$  will be less than  $0.8 \times (RelACx_t)$  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, have or are likely to result in the shortfall referred to in sub-paragraph (a).
- 12. The Authority may request any additional information in relation to paragraphs 9 to 11 of this condition that it considers is reasonably necessary to exercises 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.
- 13. Where the Authority issues a request pursuant to paragraph 12, 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.
- 14. 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 of transmission charges: revenue from transmission owner services). Such notice shall specify:
  - (a) the amount by which the Authority proposes reduce base transmission revenue as a result of relevant capital expenditure  $RelCx_t$  being less than  $0.8 \times (RelACx_t)$ ;
  - (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;

- (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 notice of such proposed licence amendments pursuant to section 11 (or as the case may be, section 12) of the Act.
- 15. The Authority shall have regard to any representations made by the licensee in response to the notice referred to in paragraph 14 before formally proposing the modification to the value of base transmission revenue in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services) referred to in the notice pursuant to section 11 (or as the case may be, section 12) of the Act.
- 16. The proposals provided to the licensee pursuant to paragraph 15 above shall be constructed, so far as is reasonably practicable, to reduce the licensee's base transmission revenue by an amount which is no more than an amount which represents the savings in financing costs, including depreciation, in respect of a reduction to the capital expenditure allowance determined by the Authority for the purpose of this part of this condition in the light of information provided by the licensee in accordance with this part of this condition.

**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 estimate for the amounts  $TSP_t$  in respect of the relevant year  $t$ , where:

$TSP_t$  means an amount no more than  $TO_t - EXS_t$

where

$TO_t$  means the allowed transmission owner revenue in the relevant year  $t$  calculated in accordance with special condition J2 (Restriction of transmission charges: revenue from transmission owner services); and

$EXS_t$  means the connection charges, if any, which are remunerated under special condition J2 (Restriction of transmission charges: revenue from transmission owner services) 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  $TSP_t$  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 value of  $TSP_t$ , 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 value for  $TSP_t$  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 value of  $TSP_t$  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 (Restriction of transmission charges: revenue from transmission owner services), 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 (Restriction of transmission charges: revenue from transmission owner services); and
- (d) the aggregate amount of the licensee's charges in relevant year t-1 in respect of outage changes.

**Special Condition J9 – Duration of the Charge Restriction Provisions**

1. 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) the application of those conditions (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 those of the charge restriction conditions (or any part or parts thereof) to which the request relates; and
  - (c) state the date (not being earlier than the date specified in paragraph 3) from which the licensee wishes the Authority to agree that the specified charge restriction conditions shall cease to have effect (“the disapplication date”).
  
3. Save where the Authority agrees otherwise, 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) a date being not less than 12 months after the delivery of the disapplication request; and,

(b) 1 April 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 6 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 revenue restriction (or any part or parts thereof) specified in the disapplication request and such report does not include a conclusion that:
  - (i) the cessation of such revenue restriction, in whole or in part, operates or may be expected to operate against the public interest; or
  - (ii) that any adverse effects specified by the Competition Commission could be remedied or prevented by such modifications of the relevant conditions as are specified in the report;

the licensee may within 30 days after the publication of the report by the Authority in accordance with Section 13 of the Act deliver to it written notice terminating the application of such revenue restriction (or any part or parts thereof) with effect from the disapplication date or a later date.

**Special condition 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 changes.

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.
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: revenue from transmission owner services).

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
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“security period”

means a period commencing on the date on which any direction issued by the Secretary of State under Section 34(4) 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.

**(d) To make any necessary incidental or consequential modifications are to be made to any special condition, standard condition or amended standard condition in the Licence for the accurate and correct numbering and referencing of any such condition.**