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National Grid House
Warwick Technology Park
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CV34 6DA
2. The Company Secretary
SP Transmission Ltd
1 Atlantic Quay
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3. The Company Secretary
Scottish Hydro Electric Transmission Limited
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200 Dunkeld Road
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PH1 3AQ

MODIFICATION PURSUANT TO SECTION 11A OF THE ELECTRICITY ACT 1989 OF THE STANDARD CONDITIONS OF ALL TRANSMISSION LICENCES GRANTED OR TREATED AS GRANTED UNDER SECTION 6(1)(b) OF THE ELECTRICITY ACT 1989

WHEREAS:

1. The companies to whom this document is addressed ("the Licensees"), all hold a transmission licence ("the Licences") each granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 ("the Act").
2. In accordance with section 11A of the Act the Gas and Electricity Markets Authority ("the Authority") gave notice on 1 March 2007 ("the Notice") on that it proposed to make the modifications to the standard conditions of the Licences and specified that any representations or objections to the proposed modifications must be made within 28 days, on or before 29 March 2007. A copy of the notice was placed on the Ofgem website (www.ofgem.gov.uk)
3. The proposed modifications as set out in the Annexes 1, 2 and 3 to the Notice involve in summary -
 - (a) Amending standard condition A1 (Definitions and interpretation)
 - (b) Removing and replacing the following standard conditions:
 - (i) Standard condition B1 (Regulatory Accounts);
 - (ii) Standard condition B2 (Change of Financial Year);
 - (iii) Standard condition B6 (Restriction on Activity and Financial Ring Fencing);
 - (iv) Standard condition B7 (Availability of Resources);

- (v) Standard condition B9 (Indebtedness); and
- (vi) Standard condition B10 (Credit Rating);

(c) Adding and including the following new standard conditions:

- (i) Standard condition B15 (Price Control Review Information);
- (ii) Standard condition B16 (Price Control Review Reporting and Associated Information) and;
- (iii) Standard condition B17 (Network Output Measures)

(d) Making any necessary incidental or consequential modifications to any standard condition for the accurate and correct numbering and referencing of any such condition.

(e) In accordance with section 49A of the Act, the reasons for making the Licence Modifications are those stated in the Notice.

4. In accordance with section 11A(4) of the Act the Authority sent a copy of the Notice of its intention to make the modifications to the Secretary of State and did not receive by 29 March 2007 or at all, a direction from the Secretary of State not to make any modification.
5. 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.
6. Prior to the close of the consultation period in respect of the Notice, the Authority received three responses from the Licensees in relation to the modification set out in the attached schedule. The licensees suggested a number of minor amendments to the text of the proposed modifications to correct typographical errors and provide textual clarification. The Authority has carefully considered the representations and concluded that most of these fall within section 11A of the Act and 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.
7. The Authority did not receive by 29 March 2007 or at all, a notice of objection from any of the Licensees to the modification set out in the attached schedule.

Now in accordance with the powers contained in section 11A of the Act, the Authority **HEREBY MODIFIES** the standard conditions in each and every transmission licence granted or treated as granted under section 6(1)(b) of the Act in the manner contained in the attached schedule **WITH EFFECT** on and from 1 April 2007.

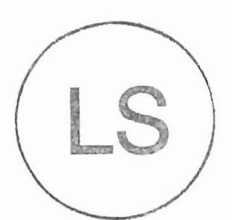
The Official Seal of the Gas and Electricity Markets Authority here affixed
is authenticated by the signature of

A handwritten signature in black ink, appearing to read 'R Hull', written in a cursive style.

Robert Hull

Director – Transmission, Networks

Authorised on behalf of the Authority



30 March 2007

SCHEDULE

DIRECTION PURSUANT TO SECTION 11A OF THE ELECTRICITY ACT 1989

MODIFICATION OF THE STANDARD CONDITIONS OF ALL TRANSMISSION LICENCES GRANTED OR TREATED AS GRANTED UNDER SECTION 6(1)(b) ELECTRICITY ACT 1989

**Annex 1. To amend and insert the following standard condition A1
(Definitions and interpretation) in the Licence.**

SECTION A. INTERPRETATION, APPLICATION AND PAYMENTS

Condition A1. Definitions and interpretation

1. In the standard conditions unless the context otherwise requires:

the "Act"	means the Electricity Act 1989.
"affected transmission licensee"	for the purposes of section C only, has the meaning given in standard condition C1 (Interpretation of Section C).
"affiliate"	in relation to the licensee means any holding company or subsidiary of the licensee or any subsidiary of a holding company of the licensee, in each case within the meaning of sections 736, 736A, and 736B of the Companies Act 1985.
"ancillary services"	for the purposes of section C only, has the meaning given in standard condition C1 (Interpretation of Section C).
"applicable balancing services"	for the purposes of standard condition C16 (Procurement and use of balancing services) only, has the meaning given in that condition.

"applicable balancing services volume data"	for the purposes of standard condition C16 (Procurement and use of balancing services) only, has the meaning given in that condition.
"applicable balancing services volume data methodology"	for the purposes of standard condition C16 (Procurement and use of balancing services) only, has the meaning given in that condition.
"applicable BSC objective(s)"	for the purposes of standard condition C3 (Balancing and Settlement Code (BSC)) only, has the meaning given in that condition.
"applicable CUSC objectives"	for the purposes of standard condition C10 (Connection and Use of System Code (CUSC)) only, has the meaning given in that condition.
"applicable STC objectives"	for the purposes of standard condition B12 (System Operator-Transmission Owner Code) only, has the meaning given in that condition.
"Application Regulations"	for the purposes of section C only, has the meaning given in standard condition C1 (Interpretation of Section C).
"associated TO agreement"	for the purposes of section C only, has the meaning given in standard condition C1 (Interpretation of Section C).
"associated TO offer"	for the purposes of section C only, has the meaning given in standard condition C1 (Interpretation of Section C).
"auditors"	means the licensee's auditors for the time being holding office in accordance with the requirements of the Companies Act 1985.

"authorised"	in relation to any business or activity means authorised by licence granted or treated as granted under section 6 or exemption granted under section 5 of the Act.
"authorised electricity operator"	means any person (other than the licensee in its capacity as operator of the licensee's transmission system or the GB transmission system) who is authorised to generate, participate in the transmission of, distribute, or supply electricity or participate in the operation of an interconnector and for the purposes of standard conditions C7 (Prohibition on discriminating between users) to C9 (Functions of the Authority) inclusive shall include any person who has made an application to be so authorised which application has not been refused and any person transferring electricity to or from the GB transmission system across any interconnector (or who has made an application for use of an interconnector which has not been refused).
the "Authority"	means the Gas and Electricity Markets Authority established under section 1 of the Utilities Act 2000.
"balancing mechanism"	for the purposes of Section C only, has the meaning given in standard condition C1 (Interpretation of Section C).
"balancing services"	for the purposes of section C only, has the meaning given in standard condition C1 (Interpretation of Section C).

"balancing services activity"	has the meaning given in standard condition C1 (Interpretation of Section C).
"balancing services adjustment data methodology"	for the purposes of standard condition C16 (Procurement and use of balancing services) only, has the meaning given in that condition.
"BETTA"	means the British electricity trading and transmission arrangements which are provided for in Chapter 1 of Part 3 of the Energy Act 2004.
"BETTA go-live date"	means the date which the Secretary of State indicates in a direction shall be the BETTA go-live date.
"bilateral agreement"	for the purposes of Section C only, has the meaning given in standard condition C1 (Interpretation of Section C).
"bilateral connection agreement"	for the purposes of Section C only, has the meaning given in standard condition C1 (Interpretation of Section C).
"bilateral embedded generation agreement"	for the purposes of Section C only, has the meaning given in standard condition C1 (Interpretation of Section C).
"BSC"	has the meaning given in standard condition C1 (Interpretation of Section C).
"BSC Framework Agreement"	for the purposes of Section C only, has the meaning given in standard condition C1 (Interpretation of Section C).
"BSC party"	for the purposes of Section C only, has the meaning given in standard condition C1 (Interpretation of Section C).
"Codes"	means any or all of the CUSC, BSC, Grid Code, STC and any Scottish grid code as the context requires.

"connection charges"	for the purposes of Section C only, has the meaning given in standard condition C1 (Interpretation of Section C).
"connection charging methodology"	for the purposes of Section C only, has the meaning given in standard condition C1 (Interpretation of Section C).
"consolidated transmission business"	for the purposes of standard conditions B1 (Regulatory Accounts), B15 (Price Control Review Information) and B16 (Price Control Revenue Reporting and Associated Information) only, means the consolidation, for regulatory accounting purposes, of the business referred to in the definition of the "transmission business".
"Consumer Council"	means the Gas and Electricity Consumer Council established under section 2 of the Utilities Act 2000.
"construction agreement"	for the purposes of Section C only, has the meaning given in standard condition C1 (Interpretation of Section C).
"core industry documents"	means those documents which: (a) in the Secretary of State's opinion are central industry documents associated with the activities of the licensee and authorised electricity operators, the subject matter of which relates to or is connected with the BSC or the balancing and settlement arrangements and (b) have been so designated by the Secretary of State.
"cross-default obligation"	means a term of any agreement or

arrangement (not including any arrangements between transmission licensees under the STC Framework Agreement) whereby the licensee's liability to pay or repay any debt or other sum arises or is increased or accelerated or is capable of arising, increasing or of acceleration by reason of a default (howsoever such default may be described or defined) by any person other than the licensee unless:

- (i) that liability can arise only as the result of a default by a subsidiary of the licensee,
- (ii) the licensee holds a majority of the voting rights in that subsidiary and has the right to appoint or remove a majority of its board of directors, and
- (iii) that subsidiary carries on business only for a purpose within paragraph (a) of the definition of permitted purpose.

"customer"

means any person supplied or requiring to be supplied with electricity at any premises in Great Britain but shall not include any authorised electricity operator in his capacity as such.

"CUSC"

has the meaning given in standard condition C1 (Interpretation of Section C).

"CUSC Framework Agreement"

for the purposes of Section C only, has the meaning given in standard condition C1 (Interpretation of Section C).

"CUSC party"	for the purposes of Section C only, has the meaning given in standard condition C1 (Interpretation of Section C).
"CUSC user"	for the purposes of Section C only, has the meaning given in standard condition C1 (Interpretation of Section C).
"designated sum"	for the purposes of standard condition C13 (Adjustments to use of system charges (small generators)), has the meaning given in that condition.
"Director General of Electricity Supply"	for the purposes of standard condition A4 (Payments to the Authority) only, has the meaning given in that condition.
"disposal"	for the purposes of standard condition B3 (Disposal of relevant assets) only, has the meaning given in that condition.
"Distribution Code"	means any distribution code required to be prepared by a licensed distributor pursuant to standard condition 9 (Distribution Code) of a distribution licence and approved by the Authority and revised from time to time with the approval of the Authority.
"distribution licence"	means a distribution licence granted or treated as granted under section 6(1)(c) of the Act.
"distribution system"	means the system consisting (wholly or mainly) of electric lines owned or operated by an authorised distributor and used for the distribution of electricity from grid supply points or generation sets or other entry points to the points of delivery to customers or authorised electricity

	operators or any transmission licensee within Great Britain in its capacity as operator of the licensee's transmission system or the GB transmission system and includes any electrical plant, meters and metering equipment owned or operated by such distributor in connection with the distribution of electricity, but shall not include any part of the GB transmission system.
"effective time"	for the purposes of Section C only, has the meaning given in standard condition C1 (Interpretation of Section C).
"electricity licensee"	means the holder of a licence granted under the Act.
"eligible generator"	for the purposes of standard condition C13 (Adjustments to use of system charges (small generators)), has the meaning given in that condition.
"estimated costs"	for the purposes of standard condition A4 (Payments to the Authority) only, has the meaning given in that condition.
"financial year"	means subject to standard condition B2 (Change of financial year) (where applicable) a period of 12 months beginning on 1st April of each year and ending on 31st March of the following calendar year.
"Fuel Security Code"	means the document of that title designated as such by the Secretary of State as from time to time amended.
"GB transmission system"	means the system consisting (wholly or mainly) of high voltage electric lines

	owned or operated by transmission licensees within Great Britain and used for the transmission of electricity from one generating station to a sub-station or to another generating station or between sub-stations or to or from any interconnector and includes any electrical plant or meters owned or operated by any transmission licensee within Great Britain in connection with the transmission of electricity.
"generation set"	means any plant or apparatus for the production of electricity and shall where appropriate include a generating station comprising more than one generating set.
"Grid Code"	means the grid code required to be drawn up by the system operator pursuant to standard condition C14 (Grid Code), as from time to time revised with the approval of the Authority.
"grid supply point"	means any point at which electricity is delivered from the GB transmission system to any distribution system.
"holding company"	means a holding company within the meaning of sections 736, 736A and 736B of the Companies Act 1985.
"imbalance price"	for the purposes of standard condition C16 (Procurement and use of balancing services) only, has the meaning given in that condition.
"indebtedness"	means all liabilities now or hereafter due, owing or incurred, whether actual or contingent, whether solely or jointly with any other person and whether as principal

	or surety, together with any interest accruing thereon and all costs, charges, penalties and expenses incurred in connection therewith.
"information"	includes any documents, accounts, estimates, returns, records or reports and data in written, verbal or electronic form and information in any form or medium whatsoever (whether or not prepared specifically at the request of the Authority) of any description specified by the Authority.
"interconnection"	means the 275kV and 400kV circuits between and including the associated switchgear at Harker sub-station in Cumbria and the associated switchgear at Strathaven sub-station in Lanarkshire; the 275kV transmission circuit between and including the associated switchgear at Cockenzie in East Lothian and the associated switchgear at Stella in Tyne and Wear; and the 400kV transmission circuit between and including the associated switchgear at Torness in East Lothian and the associated switchgear at Stella in Tyne and Wear all as existing at the date on which the transmission licence of each existing Scottish licensee comes into force as from time to time maintained, repaired or renewed, together with any alteration, modification or addition (other than maintenance, repair or renewal) which is

primarily designed to effect a permanent increase in one or more particular interconnection capacities as they exist immediately prior to such alteration, modification or addition and as from time to time maintained, repaired or renewed; and

the 132kV transmission circuit between and including (and directly connecting) the associated switchgear at Chapelcross and the associated switchgear at Harker sub-station in Cumbria; and

the 132kV transmission circuit between and including (and connecting, via Junction V) the associated switchgear at Chapelcross and the associated switchgear at Harker sub-station in Cumbria all as existing at the date on which the transmission licence of each existing Scottish licensee comes into force and as from time to time maintained, repaired or renewed.

"interconnector(s)"

has the meaning given in standard condition C1 (Interpretation of Section C).

"investment grade"

means in relation to any issuer credit rating

(a) unless sub-paragraph (b) below applies:

- (i) an issuer rating of not less than BBB- by Standard & Poor's Ratings Group or any of its subsidiaries;
- (ii) an issuer rating of not less than Baa3 by Moody's

- Investors Service Inc. or
any of its subsidiaries;
 - (iii) an issuer default rating of
not less than BBB- by
Fitch Ratings Ltd or any
of its subsidiaries; or
 - (iv) a rating which, in the
opinion of the Authority,
notified in writing to the
licensee, is equivalent to
those referred to in sub-
paragraphs (i), (ii) and
(iii) and issued by:
 - (aa) any of the credit
rating agencies
referred to in sub-
paragraphs (i), (ii) or
(iii) or
 - (bb) any other reputable
credit rating agency
which, in the
opinion of the
Authority, notified
in writing to the
licensee, has
comparable standing
in both the United
Kingdom and the
United States of
America.
- (b) such higher rating as may be
specified by those agencies from
time to time as the lowest

investment grade credit rating.

“issuer credit rating”

means

an issuer rating by Standard & Poor’s Ratings Group or any of its subsidiaries;
an issuer rating by Moody’s Investors Service Inc. or any of its subsidiaries;
an issuer default rating by Fitch Ratings Ltd or any of its subsidiaries; or
a rating which, in the opinion of the Authority, notified in writing to the licensee, is equivalent to those referred to in sub-paragraphs (a), (b) or (c) and issued by:

any of the credit rating agencies as referred to in sub-paragraphs (a), (b) or (c); or
any other reputable credit rating agency which, in the opinion of the Authority, notified in writing to the licensee, has comparable standing in both the United Kingdom and the United States of America.

"licensed distributor"

means any holder of a distribution licence.

"licensee's transmission system"

means those parts of the GB transmission system which are owned or operated by a transmission licensee within its transmission area.

"participating interest"

has the meaning given by section 260 of the Companies Act 1985 as amended by section 22 of the Companies Act 1989.

"party entry processes"

for the purposes of standard condition B12 (System Operator-Transmission Owner Code) only, has the meaning given in that

	condition.
"permitted purpose"	means the purpose of any or all of the following: (a) the transmission business, or any business or activity within the limits of paragraph 4 of standard condition B6 (Restriction on activity and financial ringfencing); (b) any business or activity to which the Authority has given its consent in writing in accordance with paragraph 3(d) of standard condition B6 (Restriction on activity and financial ringfencing); (c) without prejudice to the generality of subparagraphs (a) and (b), any payment or transaction lawfully made or undertaken by the licensee for a purpose within subparagraphs (i) to (vii) of standard condition B9, 1(b) (Indebtedness).
"Pooling and Settlement Agreement"	means the agreement of that title approved by the Secretary of State as from time to time amended.
"regulatory accounts"	means for the purposes of standard conditions B1 (Regulatory Accounts), B6 (Restriction on Activity and Financial Ring Fencing), B7 (Availability of Resources) and B15 (Price Control Review Information) only, the accounts required to be prepared by the licensee pursuant to standard condition B1

	(Regulatory Accounts).
"related undertaking"	in relation to the licensee means any undertaking in which the licensee has a participating interest.
"relevant agreement"	for the purposes of standard condition C9 (Functions of the Authority) only, has the meaning given in that condition.
"relevant assets"	for the purposes of standard condition B3 (Disposal of relevant assets) only has the meaning given in that condition.
"relevant balancing services"	for the purposes of standard condition C16 (Procurement and use of balancing services) only, has the meaning given in that condition.
"Relevant Consumers' Committees"	for the purposes of standard condition A4 (Payments to the Authority) only, has the meaning given in that condition.
"relevant proportion"	for the purposes of standard condition A4 (Payments to the Authority) only, has the meaning given in that condition.
"relevant year"	for the purposes of standard conditions A4 (Payments to the Authority), B15 (Price Control Review Information) and B16 (Price Control Revenue Reporting and Associated Information) only, has the meaning given in standard condition A4 (Payments to the Authority).
"relinquishment of operational control"	for the purposes of standard condition B3 (Disposal of relevant assets) only, has the meaning given in that condition.
"Retail Price Index"	means the general index of retail prices published by the Office for National Statistics each month in respect of all

items or:

- (a) if the index for any month in any year shall not have been published on or before the last day of the third month after such month, such index for such month or months as the Authority may after consultation with the licensee and for the purposes of this condition generally determine to be appropriate in the circumstances; or
- (b) if there is a material change in the basis of the index, such other index as the Authority may after consultation with the licensee and for the purposes of this condition generally determine to be appropriate in the circumstances.

“Scottish grid code”

means a grid code which a Scottish licensee is obliged to maintain pursuant to standard condition D9 (Licensee's grid code) of that Scottish licensee's transmission licence and references in standard condition D3 (Transmission system security standard and quality of service), standard condition D9 (Licensee's grid code), standard condition D10 (Supplementary grid code condition) and standard condition D13C (Functions of the Authority) to the “licensee's grid code” shall be construed accordingly.

“Scottish licensee”

means the holder of a transmission licence

	at the date that this condition takes effect in the licensee's transmission licence but shall not include the system operator.
"Secretary of State's costs"	for the purposes of standard condition A4 (Payments to the Authority) has the meaning given in that condition.
"Section C (system operator standard conditions) Direction"	means a direction issued by the Authority or the Secretary of State, where appropriate, in accordance with standard condition A2 (Application of Section C).
"Section D (transmission owner standard conditions) Direction"	means a direction issued by the Authority in accordance with standard condition A3 (Application of Section D).
"statutory accounts"	means the accounts to be prepared by the licensee under the Companies Act 1985.
"STC"	means the document required to be in place pursuant to standard condition B12 (System Operator – Transmission Owner Code) as from time to time amended in accordance with that condition.
"STC Framework Agreement"	means the agreement of that title, in the form approved by the Secretary of State, by which the STC is made contractually binding between the parties to that agreement, as amended from time to time with the approval of the Secretary of State.
"STC party"	means any person who is a party to the STC Framework Agreement.
"STC procedures"	for the purposes of standard condition B12 (System Operator-Transmission Owner Code) only, has the meaning given in that condition.
"subsidiary"	means a subsidiary within the meanings of

	sections 736, 736A, 736B of the Companies Act 1985.
"system operator"	means the holder for the time being of a transmission licence in relation to which licence the Authority or the Secretary of State, where appropriate, has issued a Section C (system operator standard conditions) Direction and where Section C remains in effect (whether or not subject to any terms included in a Section C (system operator standard conditions) Direction or to any subsequent variation of its terms to which the licensee may be subject).
"TO offer"	means an offer made by a transmission licensee to enter into an agreement with the system operator pursuant to standard condition D4A (Obligations in relation to offers for connection etc) or standard condition D15 (Obligations relating to the preparation of TO offers during the transition period).
"total system"	for the purposes of Section C only, has the meaning given in standard condition C1 (Interpretation of Section C).
"transition modification provisions"	for the purposes of each of standard condition B12 (System Operator – Transmission Owner Code), standard condition C3 (Balancing and Settlement Code (BSC)), standard condition C10 (Connection and Use of System Code (CUSC)) and standard condition C14 (Grid Code), has the meaning given in that condition.

"transition period"	means the period commencing on the date on which this condition takes effect in the licensee's transmission licence and ending on the BETTA go-live date.
"transmission area"	means the area specified in special condition AA of the licensee's transmission licence.
"transmission business"	means the authorised business of the licensee or any affiliate or related undertaking in the planning or development or construction or operation or maintenance of the licensee's transmission system or the GB transmission system or the provision of transmission services (whether or not pursuant to directions of the Secretary of State made under section 34 or 35 of the Act) or the co-ordination and direction of the flow of electricity onto and over the GB transmission system including the balancing services activity, and any business in providing connections to the GB transmission system, but shall not include: (i) any business of the licensee or any affiliate or related undertaking in the provision of settlement services in connection with the BSC or the Pooling and Settlement Agreement; or (ii) any other business of the licensee or any affiliate or related undertaking in the provision of

	services to or on behalf of any one or more persons.
"transmission licence"	means a licence granted or treated as granted under section 6(1) (b) of the Act.
"transmission licensee"	means the holder for the time being of a transmission licence.
"transmission network services"	for the purposes of Section C only, has the meaning given in standard condition C1 (Interpretation of Section C).
"transmission owner"	means the holder for the time being of a transmission licence in relation to which licence the Authority has issued a Section D (transmission owner standard conditions) Direction and where Section D remains in effect (whether or not subject to any terms included in a Section D (transmission owner standard conditions) Direction or to any subsequent variation of its terms to which the licensee may be subject).
"transmission services"	means those services which are provided or are to be provided to the system operator by another transmission licensee pursuant to standard condition D2 (Obligation to provide transmission services).
"ultimate controller"	means (a) a holding company of the licensee which is not itself a subsidiary of another company; and (b) any person who (whether alone or with a person or persons connected with him) is in a

position to control, or to exercise significant influence over, the policy of the licensee or any holding company of the licensee by virtue of:

(i) rights under contractual arrangements to which he is a party or of which he is a beneficiary; or

(ii) rights of ownership (including rights attached to or deriving from securities or rights under a trust) which are held by him or for which he is a beneficiary but excluding any director or employee of a corporate body in his capacity as such

(c) for the purposes of sub-paragraph (b) a person is connected with another person if they are party to any arrangement regarding the exercise of any such rights as are described in that paragraph; and

(d) for the purposes of sub-paragraph (b), rights under contractual arrangements shall not include any rights in or arising under the STC Framework Agreement which are exercisable by a transmission licensee over the activities of, or as against, another transmission licensee.

"undertaking"	bears the meaning ascribed to that expression by section 259 of the Companies Act 1985.
"use of interconnector"	means use of any interconnector for the conveyance of electricity (whether in both directions or in only one).
"use of system"	means use of the GB transmission system for the transport of electricity by any authorised electricity operator.
"use of system charges"	for the purposes of Section C only, has the meaning given in standard condition C1 (Interpretation of Section C).
"use of system charging methodology"	for the purposes of Section C only, has the meaning given in standard condition C1 (Interpretation of Section C).

2. Any word or expressions used in the Utilities Act 2000, Part I of the Act or the Energy Act 2004 shall, unless the contrary intention appears, have the same meaning when used in the standard conditions.
3. Except where the context otherwise requires, any reference to a numbered standard condition (with or without a letter) or Schedule is a reference to the standard condition (with or without a letter) or Schedule bearing that number in this licence, and any reference to a numbered paragraph (with or without a letter) is a reference to the paragraph bearing that number in the standard condition or Schedule in which the reference occurs, and reference to a Section is a reference to that Section in these standard conditions.
4. These standard conditions shall have effect as if, in relation to a licence holder who is a natural person, for the words "it", "its" and "which" there were substituted the words "he", "him" "his", and "whom", and cognate expressions shall be construed accordingly.
5. Except where the context otherwise requires, a reference in a standard condition to a paragraph is a reference to a paragraph of that standard condition and a reference in a paragraph to a sub-paragraph is a reference to a sub-paragraph of that paragraph.

6. Any reference in these conditions to
 - (a) a provision thereof;
 - (b) a provision of the **standard** conditions of electricity generation licences;
 - (c) a provision of the standard conditions of electricity distribution licences;
 - (d) a provision of the standard conditions of electricity supply licences;
and
 - (e) a provision of the standard conditions of electricity interconnector licences,shall, if these standard conditions or the standard conditions in question come to be modified, be construed so far as the context permits, as a reference to the corresponding provision of these standard conditions or the other standard conditions in question as modified.
7. In construing the standard conditions, the heading or title of any standard condition or paragraph shall be disregarded.
8. Any reference in a standard condition to the purposes of that condition generally is a reference to the purposes of that condition as incorporated in this licence and as incorporated in each other licence under section 6(1)(b) of the Act (whenever granted) which incorporates it.
9. Where any obligation under, in or pursuant to the licence is required to be performed by a specified date or within a specified period, and where the licensee has failed so to perform by such date or within such period, such obligation shall continue to be binding and enforceable after the specified date or after the expiry of the specified period (but without prejudice to all rights and remedies available against the licensee by reason of the licensee's failure to perform by that date or within that period).
10. Anything required by or under these standard conditions to be done in writing may be done by facsimile transmission of the instrument in question or by other electronic means and, in such case -

- (a) the original instrument or other confirmation in writing shall be delivered or sent by pre-paid first class post as soon as is reasonably practicable, and
- (b) where the means of transmission had been agreed in advance between the parties concerned, in the absence of and pending such confirmation, there shall be a refutable presumption that what was received duly represented the original instrument.

11. The definitions referred to in this condition may include some definitions which are not used or not used exclusively in Sections A and B (which Sections are incorporated in all transmission licences). Where:

- (a) **any definition is not used in Sections A and B, that definition shall, for the purposes of this licence, be treated:**
 - (i) **as part of the standard condition or conditions (and the Section) in which it is used;**
 - (ii) **as not having effect in the licence until such time as the standard condition in which the definition is used has effect within the licence in pursuance of standard condition A2 (Application of Section C), or standard condition A3 (Application of Section D);**
- (b) **any definition which is used in Sections A and B and is also used in one or more other Sections:**
 - (i) **shall only be modifiable in accordance with the modification process applicable to each of the standard conditions in which it is used; and**
 - (ii) **if any such standard condition is modified so as to omit that definition, then the reference to that definition in this condition shall automatically cease to have effect.**

Annex 2. To remove and replace the following standard conditions in the Licence:

Standard Condition B1 . Regulatory Accounts

Part A: Application and purpose

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

Part B: Preparation of accounts

2. For the purposes of this condition, but without prejudice to paragraph 6, the licensee shall prepare regulatory accounts for each financial year ending on 31 March.
3. Unless the Authority otherwise consents, the licensee shall:
 - (a) keep or cause to be kept for a period approved by the Authority, but not less than the period referred to in section 222(5)(b) of the Companies Act 1985 and in the manner referred to in that section, such accounting records and other records as are necessary so that the revenues, costs, assets, liabilities, reserves, and provisions of, or reasonably attributable to the consolidated transmission business are separately identifiable in the accounting records of the licensee (and of any affiliate or related undertaking of the licensee) from those of any other business of the licensee; and

- (b) prepare, on a consistent basis from such accounting records in respect of each financial year, regulatory accounts (including notes thereto and statements of the accounting policies adopted) of the licensee comprising:
- (i) a profit and loss account (or, as appropriate, an income statement);
 - (ii) a statement of total recognised gains and losses (or, as appropriate, a statement of changes in equity and if appropriate a statement of recognised income and expense);
 - (iii) a balance sheet;
 - (iv) a cash flow statement;
 - (v) **a corporate governance** statement in respect of the consolidated transmission business;
 - (vi) a directors' report in respect of the consolidated transmission business;
 - (vii) an operating and financial review in respect of the consolidated transmission business; and
 - (viii) a statement showing separately in respect of the consolidated transmission business and in appropriate detail the amounts of any revenue, cost, asset, liability, reserve or provision which has either been:
 - (aa) charged from any ultimate controller of the licensee, together with any subsidiary of such ultimate controller (other than the licensee or its subsidiaries) in relation to the provision of goods or services to the licensee;
 - (bb) charged from the licensee together with any subsidiary of the licensee in relation to the provision of goods or services to any ultimate controller of the licensee together with any subsidiaries of such ultimate controller (other than the licensee or its subsidiaries); or
 - (cc) determined by apportionment or allocation to the consolidated transmission business or between any other business of the licensee or affiliate or related

undertaking together with a description of the basis of the apportionment or allocation;

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

4. Unless the Authority so specifies in directions issued for the purposes of this condition, or with the Authority's prior written approval, the licensee shall not in relation to the regulatory accounts in respect of a financial year change the bases of charge or apportionment or allocation referred to in paragraph 3(b)(viii) from those applied in respect of the previous financial year.
5. Where, in relation to the regulatory accounts in respect of a financial year, the licensee has, in accordance with paragraph 4 above, changed such bases of charge or apportionment or allocation or changed any of its accounting policies or the application of those accounting policies from those adopted for the immediately preceding financial year, the licensee shall, if directed by the Authority in writing, in addition to preparing regulatory accounts on those bases which it has adopted, also prepare such regulatory accounts on the bases and the accounting policies and the application of its accounting policies which applied in respect of that immediately preceding financial year.
6. Regulatory accounts and information in respect of a financial year prepared under paragraph 3(b) shall, so far as reasonably practicable and unless otherwise approved by the Authority having regard to the purposes of this condition, have the same content and format as the most recent or concurrent statutory accounts of the licensee prepared under section 226 and 226A or, where appropriate, section 226B of the Companies Act 1985 and shall comply with all relevant accounting and reporting standards currently in force which have been issued or adopted by the Accounting Standards Board or, where appropriate, by the International Accounting Standards Board.

Part C: Audit and delivery of accounts

7. Unless the Authority otherwise consents, the licensee shall:
 - (a) procure, in relation to its regulatory accounts:
 - (i) an audit by an appropriate auditor of such parts of those accounts and the directors' report and operating and financial review as are specified in the Companies Act 1985 as being required to be so audited as if the licensee were a quoted company and they were the statutory accounts of the licensee prepared under sections 226 and 226A or, as appropriate, section 226B of the Companies Act 1985 drawn up to 31 March; and
 - (ii) a report by that auditor, addressed to the Authority, stating whether in the auditor's opinion those accounts fairly present the financial position, financial performance and cash flows of or reasonably attributable to the consolidated transmission business in accordance with the requirements of this condition; and
 - (b) deliver to the Authority those accounts and the auditor's reports referred to in sub-paragraph (a)(ii) and paragraph 8 as soon as is reasonably practicable, and in any event prior to their publication under Part D and not later than 31 July following the end of the financial year to which the regulatory accounts relate.
8. The licensee shall take all appropriate steps within its power to procure, in relation to its regulatory accounts:
 - (a) that the audit referred to in paragraph 7(a)(i) verifies whether the obligation to avoid discrimination and cross-subsidies specified in Article 19 of Directive 2003/54/EC of the European Parliament and of the European Council of 26 June 2003 has been respected by the licensee; and

- (b) that the appropriate auditor reports separately on that matter from his report under paragraph 7(a)(ii) addressed to the Authority.
- 9. For the purposes of paragraphs 7 and 8, the licensee must, at its own expense, enter into a contract of appointment with an appropriate auditor which includes a term requiring that the audit of the regulatory accounts of the licensee must be conducted by that auditor in accordance with all such relevant auditing standards in force on the last day of the financial year to which the audit relates as would be appropriate for accounts prepared in accordance with either section 226A or 226B of the Companies Act 1985.

Part D: Publication of regulatory accounts

- 10. Unless the Authority otherwise directs, after consulting the licensee, the licensee shall publish its regulatory accounts with the exception of the part of such regulatory accounts which shows separately the amounts charged, apportioned or allocated and describes the bases of charge or apportionment or allocation respectively required under paragraph 3(b)(viii), and any other information agreed by the Authority in writing to be confidential:
 - (a) as a stand-alone document in accordance with this condition;
 - (b) by 31 July following the end of the financial year to which the accounts relate;
 - (c) on a website used by the licensee in its ordinary course of business (where the regulatory accounts should be reasonably accessible to any person requiring them); and
 - (d) in any other manner which, in the opinion of the licensee, is necessary to secure adequate publicity for the accounts.
- 11. A copy of the regulatory accounts must be provided free of charge:
 - (a) to the Consumer Council no later than the date on which the regulatory accounts are published; and
 - (b) to any person requesting a copy.

Part E: Interpretation

12. References in this condition to sections of the Companies Act 1985 are references to those provisions as amended, substituted or inserted by the relevant provisions of the Companies Act 1989, and if such provisions of the Companies Act 1989 are not in force at the date on which this condition takes effect, it must be construed as if such provisions were in force at such date.
13. A consent under paragraph 3 or directions under paragraphs 4 or 5 may be given in relation to some or all of the requirements of the relevant paragraph and subject to such conditions as the Authority considers appropriate or necessary having regard to the purposes of this condition.
14. In this condition:
 - (a) “corporate governance statement” means a statement which describes how the principles of good corporate governance have been applied to the licensee and which a quoted company is required to prepare pursuant to the Combined Code on Corporate Governance issued under the Financial Services Authority’s listing rules and interpretations on corporate governance (and, for the purposes of this condition, the requirement for a quoted company to prepare such a statement is to be taken as a requirement for the licensee to do so whether or not it is a quoted company).
 - (b) “directors’ report” means a report having the coverage and content of the directors’ report which a quoted company is required to prepare pursuant to sections 234, 234ZZA and 234ZZB of the Companies Act 1985 (and, for the purposes of this condition, the requirement for a quoted company to prepare such a report is to be

taken as a requirement for the licensee to do so whether or not it is a quoted company).

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

Standard Condition B2. Change of Financial Year

1. The definition of “financial year” in standard condition A1 (Definitions and Interpretation) shall, for the purpose only of the statutory accounts of the licensee, cease to apply to the licensee from the date at which the licensee sends a notice to the Authority for that purpose.
2. Such notice shall:
 - (a) specify the date from which, for the purpose set out at paragraph 1, the current and subsequent financial years of the licensee shall run; and
 - (b) continue in effect until revoked by the licensee issuing a further notice.
3. The licensee may, for the purpose only of its statutory accounts, change its financial year from that previously notified by sending to the Authority a new notice pursuant to paragraph 1 which specifies the licensee’s new financial year-end.
4. Where the licensee sends the Authority a new notice, the previous notice shall be revoked, as provided by paragraph 2(b), and the licensee’s financial year-end shall change with effect from the date specified in the new notice.
5. The provisions of this condition shall not:
 - (a) apply to the financial year of the licensee as defined in standard condition A1 (Definitions and Interpretation) for the purpose of accounts or other information produced in compliance with standard condition B1 (Regulatory Accounts), standard condition B15 (Price Control Review Information) and standard condition B16 (Price Control Revenue Reporting and Associated Information); or
 - (b) affect the licensee’s obligations in respect of the payment of licence fees under standard condition A4 (Payments to the Authority).

Standard Condition B6. Restriction on Activity and Financial Ring Fencing

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

to which the Authority has given its consent in writing.

4. Nothing in this condition shall prevent the licensee or an affiliate or related undertaking of the licensee in which the licensee holds shares or other investments (a “relevant associate”) from conducting de minimis business as defined in this paragraph so long as the limitations specified in this paragraph are complied with:
 - (a) For the purpose of this paragraph, “de minimis business” means any business or activity carried on by the licensee or a relevant associate or relevant associates other than:
 - (i) the transmission business; and
 - (ii) any other business activity to which the Authority has given its consent in writing in accordance with paragraph 3(d).
 - (b) The licensee or a relevant associate may carry on de minimis business provided that neither of the following limitations is exceeded, namely:
 - (i) the aggregate turnover of all the de minimis business carried on by the licensee and the equity share of the aggregate turnover of all the de minimis business carried on by all its relevant associates does not in any period of twelve months commencing on 1 April of any year exceed 2.5 per cent of the aggregate turnover of the transmission business, as shown by the most recent audited regulatory accounts of the licensee produced under paragraph 3(b) of standard condition B1 (Regulatory Accounts); and
 - (ii) the aggregate amount (determined in accordance with subparagraph (d) below) of all investments made by the licensee in de minimis business, carried on by the licensee and all relevant associates, does not at any time after the date at which this condition takes effect in the licensee’s transmission licence exceed 2.5 per cent of the sum of the share capital in issue, the

share premium and the consolidated reserves (including retained earnings) of the licensee as shown by the most recent audited regulatory accounts of the licensee produced under paragraph 3(b) of standard condition B1 (Regulatory Accounts) then available.

- (c) For the purpose of sub-paragraph (b) above, “investment” means any form of financial support or assistance given by or on behalf of the licensee for the de minimis business whether on a temporary or permanent basis and including (without limiting the generality of the foregoing) any commitment to provide any such support or assistance in the future.
- (d) At any relevant time, the amount of an investment shall be the sum of:
 - (i) the value at which such investment was included in the audited historical cost balance sheet of the licensee as at its latest accounting reference date to have occurred prior to the date this condition comes into effect in the licensee’s transmission licence (or, where the investment was not so included, zero);
 - (ii) the aggregate gross amount of all expenditure (whether of a capital or revenue nature) howsoever incurred by the licensee in respect of such investment in all completed accounting reference periods since such accounting reference date; and
 - (iii) all commitments and liabilities (whether actual or contingent) of the licensee relating to such investment outstanding at the end of the most recently completed accounting reference period,

less the sum of the aggregate gross amount of all income (whether of a capital or revenue nature) howsoever received by the licensee in respect of such investment in all completed accounting reference periods since the accounting reference date referred to in sub-paragraph (d)(i).

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

Standard Condition B7. Availability of Resources

1. The licensee shall at all times act in a manner calculated to secure that it has available to it such resources, including (without limitation) management and financial resources, personnel, fixed and moveable assets, rights, licences, consents and facilities, on such terms and with all such rights, as shall ensure that it is at all times able:
 - (a) to properly and efficiently carry on the transmission business; and
 - (b) to comply in all respects with its obligations under this licence and such obligations under the Act as apply to the transmission business including, without limitation, its duty to develop and maintain an efficient, co-ordinated and economical system of electricity transmission.
2. The licensee shall by 31 July of each year submit to the Authority a certificate, approved by a resolution of the board of directors of the licensee and signed by a director of the licensee pursuant to that resolution, in one of the following forms:
 - (a) “After making enquiries, and having taken into account in particular (but without limitation) any dividend or other distribution which might reasonably be expected to be declared or paid by the licensee, the directors of the licensee have a reasonable expectation that the licensee will have sufficient financial resources and financial facilities available to itself to enable the licensee to carry on the transmission business and activities authorised by the licence held in accordance with its obligations under the Act for a period of 12 months from the date of this certificate.”
 - (b) “After making enquiries, and having taken into account in particular (but without limitation) any dividend or other distribution which might reasonably be expected to be declared or paid by the licensee, the directors of the licensee have a reasonable expectation, subject to what is explained below, that the licensee will have sufficient financial resources and financial facilities available to itself to enable the licensee to carry on

the transmission business and activities authorised by the licence held in accordance with its obligations under the Act for a period of 12 months from the date of this certificate. However, they would like to draw attention to the following factors which may cast doubt on the ability of the licensee to carry on the transmission business.”

- (c) “In the opinion of the directors of the licensee, the licensee will not have sufficient financial resources and financial facilities available to itself to enable the licensee to carry on the transmission business and activities authorised by the licence held in accordance with its obligations under the Act for a period of 12 months from the date of this certificate.”

- 3. The licensee shall submit to the Authority with that certificate:
 - (a) a statement of the main factors which the directors of the licensee have taken into account in giving the certificate, together with a confirmation of the availability of financial facilities; and
 - (b) a cashflow forecast, movement in net debt and analysis of net debt.
- 4. The documents submitted to the Authority in accordance with paragraph 3 shall be approved by a resolution of the board of directors of the licensee and must be signed by a director of the licensee pursuant to that resolution.
- 5. The licensee shall inform the Authority in writing immediately if the directors of the licensee become aware of any circumstance which causes them no longer to have the reasonable expectation expressed in the most recent certificate given under paragraph 2.
- 6. The licensee shall require that each certificate provided in accordance with paragraph 2 is accompanied by a report prepared by its auditors and addressed to the Authority stating whether or not the auditors are aware of any inconsistencies between, on the one hand, that certificate and the statement and cashflow forecast, and movement in net debt and analysis of net debt submitted with it and, on the other hand, any information which they obtained during their audit

work on the regulatory accounts of the licensee prepared pursuant to standard condition B1 (Regulatory Accounts).

The directors of the licensee shall not declare or recommend a dividend, and the licensee shall not make any other form of distribution within the meaning of section 263 of the Companies Act 1985, or redeem or repurchase any share capital of the licensee (and for the purposes of sub paragraph (a) (ii) of this condition the term distribution shall include any such dividend, other distribution, redemption or repurchase) unless prior to the declaration, recommendation or making of the distribution (as the case may be) the licensee has issued to the Authority a certificate complying with the following requirements of this paragraph:

(a) The certificate shall be in the following form:

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

- (i) **that the licensee is in compliance in all material respects** with all obligations imposed on it by standard condition B4 (Provision of Information to the Authority), standard condition B6 (Restriction on Activity and Financial Ring Fencing), standard condition B7 (Availability of Resources), standard condition B8 (Undertaking from Ultimate Controller), standard condition B10 (Credit Rating) and standard condition B9 (Indebtedness) of its licence; and
- (ii) that the making of a distribution of [] on [] will not, either alone or when taken together with other circumstances reasonably foreseeable at the date of this certificate, cause the licensee to be in breach to a material extent of any of those obligations in the future.”

(b) The certificate shall be signed by a director of the licensee and must have been approved by a resolution of the board of directors of the licensee passed not more than 14 days before the date on which the declaration, recommendation or payment will be made.

Where the certificate has been issued in respect of the declaration or recommendation of a dividend, the licensee shall be under no obligation to issue a further certificate prior to payment of that dividend, provided that such payment is made within six months of the issuing of that certificate

Standard Condition B9. Indebtedness

1. In addition to the requirements of standard condition B3 (Disposal of relevant assets), the licensee shall not without the prior written consent of the Authority (following the disclosure by the licensee of all material facts):
 - (a) create or continue or permit to remain in effect any mortgage, charge, pledge, lien or other form of security or encumbrance whatsoever, undertake any indebtedness to any other person or enter into any guarantee or any obligation otherwise than:
 - (i) on an arm's length basis;
 - (ii) on normal commercial terms;
 - (iii) for a permitted purpose; and
 - (iv) (if the transaction is within the ambit of standard condition B3 (Disposal of relevant assets) in accordance with that condition);
 - (b) transfer, lease, license or lend any sum or sums, asset, right or benefit to any affiliate or related undertaking of the licensee otherwise than by way of:
 - (i) a dividend or other distribution out of distributable reserves;
 - (ii) repayment of capital;
 - (iii) payment properly due for any goods, services or assets provided on an arm's length basis and on normal commercial terms;
 - (iv) a transfer, lease, licence or loan of any sum or sums, asset, right or benefit on an arm's length basis, on normal commercial terms and made in compliance with the payment condition referred to in paragraph 2;
 - (v) repayment of or payment of interest on a loan not prohibited by sub-paragraph (a);
 - (vi) payments for group corporation tax relief or for the surrender thereof calculated on a basis not exceeding the value of the benefit received; or

(vii) an acquisition of shares or other investments in conformity with paragraph 2 of standard condition B6 (Restriction on Activity and Financial Ring Fencing) made on an arm's length basis and on normal commercial terms,

provided however, that the provisions of paragraph 3 below shall prevail in any of the circumstances described or referred to therein;

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

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

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

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

3. Except with the prior consent of the Authority, the licensee shall not after 1st April 2008 enter into or complete any transaction of a type referred to or described in paragraph 1(b) save in accordance with paragraph 4, if:
- (a) the licensee does not hold an investment grade issuer credit rating;
 - (b) where the licensee holds more than one issuer credit rating, one or more of the ratings so held is not investment grade; or
 - (c) any issuer credit rating held by the licensee is BBB- by Standard & Poor's Ratings Group or Fitch Ratings Ltd or Baa3 by Moody's Investors Service, Inc. (or such higher issuer credit rating as may be specified by any of these credit rating agencies from time to time as the lowest investment grade credit rating), or is an equivalent rating from another agency that has been notified to the licensee by the Authority as of comparable standing for the purposes of standard condition B10 (Credit Rating) and:
 - (i) is on review for possible downgrade; or
 - (ii) is on Credit Watch or Rating Watch with a negative designation;or, where neither (i) nor (ii) applies:
 - (iii) the rating outlook of the licensee as specified by any credit rating agency referred to in sub-paragraph (c) which at the relevant time has assigned the lower or lowest investment grade issuer credit rating held by the licensee has been changed from stable or positive to negative.
4. Where paragraph 3 applies, the licensee may not without the prior written consent of the Authority (following disclosure of all material facts) transfer, lease, license or lend any sum or sums, asset, right or benefit (as described or referred to in paragraph 1(b)) to any affiliate or related undertaking of the licensee, otherwise than by way of:

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

Standard Condition B10. Credit Rating

1. The licensee shall use all reasonable endeavours to ensure that the licensee maintains at all times an investment grade issuer credit rating.

Annex 3. To insert the following new standard conditions in the Licence:

Standard Condition B15. Price Control Review Information

Part A: Application and purpose

1. This condition takes effect from 1st April 2007 and applies in respect of the price control review information of the licensee relating to the relevant year commencing 1st April 2006 and each succeeding relevant year for the purposes set out in paragraph 2.
2. The purposes in relation to price control review information are:
 - (a) to ensure that the licensee maintains (and secures that any affiliate or related undertaking of the licensee maintains) such accounting records, other records, and reporting arrangements as are necessary to enable the licensee to prepare price control review information for submission to the Authority in accordance with the requirements of this condition;
 - (b) to establish as soon as reasonably practicable and by no later than 15th May 2007 or such later date as the Authority directs, a common set of rules, issued by direction of the Authority, which are to apply to the collection and preparation of price control review information for submission to the Authority by the licensee and every other transmission licensee (“the price control review reporting rules”); and thereby
 - (c) to facilitate any review or modification by the Authority of the requirements of any of the revenue restriction conditions of this licence (“a price control review”).

Part B: Preparation of price control review information

3. Unless and insofar as the Authority otherwise consents, the licensee shall from 1st April 2007:

- (a) keep or cause to be kept for a period approved by the Authority, but not less than the period referred to in section 225(5)(b) of the Companies Act 1985 and in the manner referred to in that section, such accounting records and other records as are necessary to ensure that the price control review information of, or reasonably attributable to the consolidated transmission business is separately identifiable in the accounting records of the licensee (and of any affiliate or related undertaking of the licensee);
- (b) prepare and submit to the Authority, on a consistent basis from such accounting records, in respect of each relevant year, price control review information for such aspects of the consolidated transmission business and of the business of each affiliate or related undertaking of the licensee that either directly or indirectly provides goods and services to the licensee or forms part of the consolidated transmission business, either separately or consolidated, and in such manner and in respect of such financial year as may be required under the price control review reporting rules;
- (c) keep and maintain such data as will permit the assessment by the Authority of historic and forecast network performance of the licensee's transmission system, as may be required under price control reporting rules, to facilitate comparative analysis over time for reporting under the price control reporting rules of:
 - (i) geographic areas of and network assets within the licensee's transmission system, and
 - (ii) transmission systems within Great Britain, and
 - (iii) transmission systems within Great Britain and in other countries, and

(iv) transmission systems and distribution systems within Great Britain.

Part C : Delivery and review of price control review information

4. Unless and insofar as the Authority otherwise consents, the licensee shall deliver the price control review information to the Authority as soon as is reasonably practicable following the end of the relevant year to which such information relates and in any event not later than 31st July following the end of the relevant year to which such information relates.
5. The licensee shall maintain all systems of control and other governance arrangements to ensure that the information collected and reported to the Authority is in all material respects accurate and complete and is fairly presented and that all such systems of control and other governance arrangements are kept under regular review by the directors of the licensee with a view to ensuring that they remain effective for this purpose. The licensee shall provide all such assistance as may be reasonably required to permit the Authority to review such systems from time to time.
6. The Authority may, in addition to any audit of the regulatory accounts of the licensee carried out in accordance with standard condition B1 (Regulatory Accounts), review, or arrange for a person nominated by the Authority (“a reviewer”) to review, matters in the price control review information in respect of which the Authority requires clarification.
7. Subject to paragraph 8, the licensee, in relation to the purposes of any review carried out under paragraph 6:
 - (a) shall give the Authority or (as the case may be) the reviewer all such assistance as it or he may reasonably require; and
 - (b) shall (and must procure, insofar as it is able to do so, that any affiliate or related undertaking of the licensee, any person by whom it procures the performance of any obligation under this condition and any auditor of such person, or of the licensee or any affiliate or related undertaking

of the licensee, shall) co-operate fully with the Authority or (as the case may be) with the reviewer so as to enable him to carry out and complete his review for the Authority.

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

Part D: Establishment of the price control review reporting rules

9. The price control review reporting rules developed in accordance with paragraph 11, shall, subject to paragraph 10 be issued by direction of the Authority for the purposes of this condition generally. The Authority may from time to time modify the price control review reporting rules in accordance with the provisions of Part F of this condition.
10. Before issuing a direction under paragraph 9, the Authority shall
 - (a) give notice to all transmission licensees :
 - (i) stating that it intends to issue the price control review reporting rules,
 - (ii) setting out the contents of those rules and the date on which it is proposed that the direction should take effect, and
 - (iii) specifying the period (not being less than 28 days from the date of the notice) within which representations or objections with respect to those rules may be made;
 - (b) consider any representations or objections which are duly made and not withdrawn; and
 - (c) give reasons for its decision.
11. The licensee shall use all reasonable endeavours within its power:

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

to assist the Authority in the development of the price control review reporting rules for implementation pursuant to this condition by 15th May 2007 or such later date as the Authority directs.

Part E: Content of the price control review reporting rules

12. Subject to paragraphs 13 to 16, the price control review reporting rules may, in relation to any requirement of this condition in respect of the price control review information, without limitation, specify:

- (a) the meaning to be applied to words and phrases (other than those defined in this or any other condition of this licence) used in connection with such information;
- (b) the methodology for calculating or deriving numbers comprising any part of such information;
- (c) requirements as to the form and manner in which such information must be recorded;
- (d) requirements as to the standards of accuracy and reliability with which such information must be recorded;
- (e) requirements as to the form and the content of such information;
- (f) requirements as to the manner in which such information must be provided to the Authority; and
- (g) requirements as to those parts of such information which may fall to be considered by a reviewer and the nature of that consideration;

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

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

Part F: Modification of the price control review reporting rules

14. The Authority may modify, in whole or in part, any price control review reporting rules established in accordance with Part D of this condition, in accordance with the following provisions of Part F of this condition.
15. Subject to paragraph 16, where the Authority considers that it is necessary to modify the price control review reporting rules in order to provide more accurate, consistent, useful or comparable information for the purposes of a price control review, it may do so by issuing a direction to that effect where it:
 - (a) has first given notice to all transmission licensees:
 - (i) stating that it proposes to make the modification;
 - (ii) setting out the text of the modification, the purpose and effect of the modification and the date on which it is proposed to come into effect; and

- (iii) specifying the period (not being less than 28 days from the date of the notice) within which representations or objections with respect to the proposed modification may be made;
 - (b) has considered any representations or objections which are duly made and not withdrawn; and
 - (c) has given reasons for its decision.
16. Where a modification of the price control review reporting rules relates to the introduction into those rules of a requirement to provide:
- (a) a new category of price control review information; or
 - (b) an existing category of price control review information to a greater level of detail,

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

Part G: Interpretation

17. A **consent under** paragraph 3 or 4 may be given in relation to some or all of the requirements of the relevant paragraph and subject to such conditions as the Authority considers appropriate or necessary having regard to the purposes of this condition.
18. For the purposes of this condition:
- “price control review information” means the information required to be submitted by the licensee pursuant to this condition, and is to be interpreted in accordance with the price control review reporting rules.

Standard Condition B16 – Price Control Revenue Reporting and Associated Information

PART A: Application and Purpose

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

PART B: Revenue Reporting regulatory instructions and guidance and specified information

2. For the purposes of this condition:

“revenue reporting regulatory instructions and guidance” means the instructions and guidance issued by the Authority for the purposes of this condition as modified from time to time by a direction under paragraph 12 and subject to paragraphs 15 to 17 shall include (without limitation):

(a) the definition of specified information to be collected pursuant to this condition which for the purposes of paragraph 7 is information relating to:
 - (i) all associated terms used in the derivation of the licensee’s allowed revenue as defined in the relevant special conditions of the licensee’s transmission licence for purposes of paragraph 7(a) (Audited Price Control Return);
 - (ii) the allowed revenue term, the actual revenue term and income derived from excluded services as defined in the licensee’s transmission licence for the purpose of paragraph 7(b) (Forecast Price Control Return);
 - (iii) the associated information and parameters used in the determination of the Transmission Network Reliability Incentive as defined in the relevant special condition of licensee’s transmission licence for the purposes of paragraph 7 (c);

- (iv) the associated information and parameters used in the determination of the Revenue Drivers as defined in the relevant special condition of licensee's transmission licence for the purposes of paragraph 7 (d);
 - (v) the associated information and parameters used in the determination of the Innovation Funding Incentive (IFI) as defined in the relevant special condition of licensee's transmission licence for the purposes of paragraph 7 (e); and
 - (vi) the associated information and parameters used in the determination of the Sulphur Hexafluoride (SF6) Incentive as defined in the relevant special condition of licensee's transmission licence for the purposes of paragraph 7 (f);
- (b) requirements for recording specified information which are reasonably necessary to enable an appropriate auditor to determine the accuracy and reliability of specified information;
 - (c) requirements as to the form and manner in which specified information shall be provided to the Authority (including templates for doing so);
 - (d) requirements as to the form and manner in which specified information shall be recorded and the standards of accuracy and reliability with which it shall be recorded; and
 - (e) requirements as to the timing of the provision of specified information to the Authority in respect of each relevant year.

3. The licensee shall:

- (a) establish and maintain appropriate systems, processes and procedures to measure and record specified information in respect of the relevant year commencing on 1st April 2007 and for each subsequent relevant year and in accordance with the revenue reporting regulatory instructions and guidance (including any associated information therein) for the time being in force pursuant to this condition;

- (b) maintain all systems of control and other governance arrangements that ensure the information collected and reported to the Authority is in all material respects accurate and complete and is fairly presented and that all such systems of control and other governance arrangements are kept under regular review by the directors of the licensee with a view to ensuring that they remain effective for this purpose; and
 - (c) shall provide all such assistance as may be reasonably required to permit the Authority to review such systems from time to time.
- 4. The licensee shall notify the Authority immediately in the event that it discovers errors in the information or calculations used to derive the information submitted to the Authority under this licence condition.
- 5. The licensee shall collect the specified information required by the revenue reporting regulatory instructions and guidance issued pursuant to this condition from the date on which such revenue reporting regulatory instructions and guidance are issued by the Authority.

PART C : Information to be provided to the Authority

- 6. The licensee shall comply with the relevant provisions and information requirements of the revenue reporting regulatory instructions and guidance issued pursuant to this condition.
- 7. The licensee shall provide the Authority with:
 - (a) the information specified in the template for the Audited Price Control Return contained in the revenue reporting regulatory instructions and guidance by no later than 31 July following the end of the relevant year to which such information relates;
 - (b) save in relation to the relevant year commencing 1st April 2007 the information specified in the template for the Forecast Price Control Return contained in the revenue reporting regulatory instructions and guidance by no later than 1 April of the relevant year to which

such information relates, being the licensee's estimate of that information made on or before 1 April;

- (c) the information specified in the template for the Transmission Network Reliability Incentive contained in the revenue reporting regulatory instructions and guidance by no later than 31st July following the end of the relevant year to which the information relates;
- (d) the information specified in the template for the Revenue Drivers contained in the revenue reporting regulatory instructions and guidance by no later than 31st July following the end of the relevant year to which the information relates;
- (e) the information specified in the template for the Innovation Funding Incentive contained in the revenue reporting regulatory instructions and guidance by no later than 31st July following the end of the relevant year to which the information relates;
- (f) the information specified in the template for the Sulphur Hexafluoride (SF₆) Incentive contained in the revenue reporting regulatory instructions and guidance by no later than 31st July following the end of the relevant year to which the information relates following approval by the Authority of the licensee's methodology for determining the leakage rate of sulphur hexafluoride .

PART D: Audit Requirements

- 8. The information referred to in paragraph 7(a) shall be accompanied by a report addressed to the Authority from the auditors, stating whether in their opinion:
 - (a) the information provided in accordance with paragraph 7 (a) has been properly prepared in accordance with the revenue reporting regulatory instructions and guidance; and

- (b) the amounts presented are in accordance with the licensee's records which have been maintained in accordance with paragraph 3 of this condition.
- 9. The licensee shall require that the report from the auditors, referred to in paragraph 8, is accompanied by a letter from the auditors to the Authority detailing the procedures that the auditors have followed in reaching their opinion.
- 10. For the purposes of paragraph 8, the licensee shall at its own expense enter into a contract of appointment with the auditors which includes a term requiring that the audit be conducted in accordance with all relevant auditing standards in force on the last day of the relevant year to which the audit relates as would be appropriate.
- 11. The licensee shall (and must procure, insofar as it is able to do so, that any affiliate or related undertaking of the licensee shall) co-operate fully with the auditors so as to enable them to complete and report to the Authority on any audit carried out in accordance with paragraph 8.

PART E: Modification to the revenue reporting regulatory instructions and guidance

- 12. Where the Authority considers that the revenue reporting regulatory instructions and guidance should be modified in such way as is necessary more effectively to achieve the purposes of this condition, the Authority may, subject to paragraphs 13 to 15, modify the revenue reporting regulatory instructions and guidance by issuing a direction to all transmission licensees.
- 13. Before issuing a direction under paragraph 12, the Authority, by notice given to all transmission licensees, shall:

- (a) state that it proposes to make a modification, and set out the date on which it proposes that this should take effect;
 - (b) set out the text of the modification, the purpose and effect of the modification, and the reasons for proposing it; and
 - (c) specify the time (not less than 28 days from the date of the notice) within which representations or objections with respect to the proposed modification may be made,
- and consider any representations or objections which have been duly made and are not withdrawn, and give reasons for its decision.

14. Where any proposed modification of the revenue reporting regulatory instructions and guidance relates to a requirement to provide specified information to a greater level of accuracy than was previously required, the Authority may only make such modification with the consent of each licensee to whom such modification relates, provided that such consent may not be unreasonably withheld or delayed by any relevant licensee
15. Any modification of the revenue reporting regulatory instructions and guidance under paragraph 12 to introduce an additional category of specified information or to enlarge an existing category of information shall not exceed what may reasonably be requested from the licensee by the Authority under paragraph 1 of standard condition B4 (Provision of Information to the Authority).
16. The provisions of the revenue reporting regulatory instructions and guidance may not exceed what is necessary to achieve the purposes of this condition.
17. Nothing in this condition should require the licensee to produce any documents which it could not be compelled to produce or give evidence in civil proceedings before a court.

Standard Condition B17: Network Output Measures

Part A: Purpose

1. The purpose of this condition is to ensure the development and maintenance of an appropriate methodology to enable the evaluation of network output measures (as defined in paragraph 2) for the licensee's transmission system.

Part B: Development of the Network Output Measures Methodology

2. The licensee shall, in consultation with other transmission licensees and interested parties, before 31 May 2008 or such later date as the Authority may direct, submit a methodology (the "network output measures methodology") for approval by the Authority in accordance with paragraphs 7, 8 and 9. The network output measures methodology shall be designed to enable the evaluation of:
 - (a) the current condition of the assets which collectively form the licensee's transmission system (including the condition of the principal components of those assets) (collectively, "network assets"), the reliability of network assets, and the predicted rate of deterioration in the condition of network assets which is relevant to making assessment of the present and future ability of network assets to perform their function ("network asset condition");
 - (b) the overall level of risk to the reliability of the licensee's transmission system as a result of network asset condition and the interdependence between network assets ("network risk");
 - (c) those aspects of the technical performance of the licensee's transmission system which have a direct impact on the reliability and cost of services provided by the licensee as part of its transmission business ("network performance");

(d) the level of the capability and the utilisation of the licensee's transmission system at entry and exit points and other network capability and utilisation factors ("network capability");

collectively the "network output measures".

3. The licensee shall set out in its proposed network output measures methodology the categories of data to be used and the methodology to be applied to such data to derive the network output measures.
4. The network output measures shall be designed to facilitate:
 - (a) the monitoring of the licensee's performance in relation to the development, maintenance and operation of an efficient, co-ordinated and economical system of electricity transmission;
 - (b) the assessment of historical and forecast network expenditure on the licensee's transmission system;
 - (c) the comparative analysis over time between:
 - (i) geographic areas of, and network assets within the licensee's transmission system;
 - (ii) transmission systems within Great Britain;
 - (iii) transmission systems within Great Britain and within other countries;
 - (iv) transmission systems and distribution systems within Great Britain;
 - (d) the communication of relevant information regarding the licensee's transmission system between the licensee, the Authority and interested parties in a transparent manner; and

- (e) the assessment of customer satisfaction derived from the services provided by the licensee as part of its transmission business;

collectively the “objectives”.

5. Save where the Authority otherwise consents, when submitting its network output measures methodology proposal for approval by the Authority in accordance with paragraph 2, the licensee shall also provide the Authority with:

- (a) analysis and reports relevant to the development of the network output measures methodology, including supporting data and models to indicate how the proposed methodology facilitates the objectives;
- (b) a description of the data and treatment applied to that data used in the network output measures methodology; and
- (c) historical data which was used in the network output measures methodology. Historical data should, where reasonably practicable, be provided for a period of at least ten years preceding the year in which the proposal is submitted.

6. The Authority shall review the proposed network output measures methodology submitted to it under paragraph 2 and shall consult with the transmission licensees and where appropriate other interested parties.
7. If the Authority is satisfied that the network output measures methodology proposed by the licensee in accordance with paragraph 2 facilitates the objectives, the Authority shall approve the proposed network output measures methodology.
8. If the Authority is satisfied that the network output measures methodology proposed by the licensee in accordance with paragraph 2 would, if amended, facilitate the objectives, the Authority may approve such

proposed network output measures methodology with such amendments as the Authority shall direct.

9. If the Authority is not satisfied that the network output measures methodology proposed by the licensee in accordance with paragraph 2 facilitates the objectives or if the Authority is not satisfied that the proposed methodology would facilitate the objectives if amended, the Authority shall issue a notice of disapproval of such proposed network output measures methodology. The Authority shall, in such a notice, provide reasons for such disapproval. The Authority shall also, after consulting with the transmission licensees and other interested parties, direct the areas in which the licensee shall make improvements to the network output measures methodology that it has proposed and the date by which the licensee shall propose to the Authority such an improved network output measures methodology

Part C: Implementation of the Network Output Measures Methodology

10. Where the network output measures methodology has been approved by the Authority under paragraph 7 or 8 the licensee shall:
 - (a) from 1 April 2009, or such later date as the Authority may direct, record the data required for the application of the network output measures methodology together with the network output measures derived pursuant to it;
 - (b) in respect of the relevant year commencing on 1 April 2009 (or such later date as the Authority may direct) and each subsequent relevant year, submit a report on the network output measures to the Authority by 31 July (or such later date as the Authority may direct) in the year immediately following the end of the relevant year to which the network output measures relate. The Authority will propose any corresponding specific reporting arrangements applicable to the

network output measures in accordance with standard condition B15 (Price Control Review Information).

11. Where the network output measures methodology has been approved by the Authority under paragraph 8 the licensee shall also provide the Authority as soon as is reasonable practicable with the relevant data specified in paragraph 5(c) reflecting the amendments to the proposed network output measures methodology directed by the Authority.

Part D: Modification to the Network Output Measures Methodology

12. The licensee shall at all times keep the approved network output measures methodology under review to ensure that it facilitates the objectives.
13. The licensee shall, subject to paragraphs 14, 15 and 16, make such modifications to the approved network output measures methodology as may be required to better facilitate the objectives.
14. Except with the consent of the Authority, before making a modification to the network output measures methodology the licensee shall:
 - (a) consult with the transmission licensees and other interested parties and allow them a period of not less than 28 days within which to make written representations;
 - (b) furnish the Authority with a report setting out:
 - (i) the proposed modification to the approved network output measures methodology;
 - (ii) the representations (if any) made to the licensee and not withdrawn;
 - (iii) any changes to the modification proposed to the approved network output measures methodology proposed as a consequence of such representations;

- (iv) how the proposed modification better facilitate the objectives;
 - (v) the data used to develop the modification to the network output measures methodology. Historical data should, where reasonably practicable, be provided for a period of at least ten years preceding the year in which the modification was proposed;
 - (vi) a timetable for implementation of the modification, provided that no such modification may be implemented earlier than the date on which the period referred to in paragraph 15 expires; and
 - (c) where the Authority has given a direction that sub-paragraphs 14(a) and/or 14(b) should not apply, comply with such other requirements that the Authority may specify in the direction in respect of proposals to modify the network output measures methodology.
15. Where the licensee has complied with the requirements of paragraph 14, it shall, unless the Authority has within 28 days of the report being furnished to it given a direction that the modifications may not be made, implement the modifications to the network output measures methodology. The Authority shall propose any corresponding changes to the specific reporting arrangements in accordance with standard condition B15 (Price Control Review Information).
16. The Authority may review the network output measures methodology (in consultation with the transmission licensee and/or interested parties) and revisions to the network output measures methodology may be directed by the Authority in a manner specified in the directions and the licensee shall forthwith comply with any such directions. The Authority shall propose any corresponding changes to the specific reporting arrangements in accordance with standard condition B15 (Price Control Review Information).

Annex 4. To make any necessary incidental or consequential modifications to any standard condition for the accurate and correct numbering and referencing of any such condition.