

**ANNEX 1 TO THE NOTICE ISSUED UNDER SECTION 11 OF THE
ELECTRICITY ACT 1989 IN RESPECT OF THE TRANSMISSION LICENCE
OF NATIONAL GRID ELECTRICITY TRANSMISSION PLC**

Special Condition D1. Transmission Network Revenue Restriction: Definitions

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

“average specified rate” means the average of the daily base rates of Barclays Bank PLC current from time to time during the period in respect of which any calculation falls to be made.

“base transmission revenue” means the revenue allowances calculated in accordance with paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue).

“excluded services” means those services provided by the licensee as part of its transmission business which in accordance with the principles set out in Special Condition D10 (Excluded Services) fall to be treated as excluded services.

“logged up costs” means:

(a) for the purposes of paragraphs 2 and 3 of special condition D2 (Restriction on Transmission Network Revenue), those capital expenditure and operating expenditure costs incurred by the licensee in respect of those items referred to in those paragraphs; and

(b) for the purposes of paragraphs 3 and 11 of special condition D9 (Capital Expenditure Incentive and Safety Net), the capital expenditure incurred by the licensee in respect of those items referred to in those paragraphs.

“maximum revenue”

means the revenue calculated in accordance with the formula in paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue).

“non-domestic rates”

means non-domestic rates payable by the licensee in respect of hereditaments (other than excepted hereditaments being a hereditament consisting of or comprising premises used wholly or mainly:

- (a) as a shop or other place for the sale, display or demonstration of apparatus or accessories for use by consumers of electricity (any use for receipts of payments for the use of electricity being disregarded);
- (b) as office premises of the licensee where those premises are not situated on operational land of the licensee; or
- (c) for both of the foregoing purposes (for the avoidance of

doubt, office premises and operational land shall have the meaning ascribed to those terms in SI 2000/525 Central Ratings List (England) Regulations)) wholly or mainly used for the purposes of the transformation or transmission of electrical power, or for ancillary purposes.

“relevant year”

means a financial year commencing on or after 1 April 1990.

“relevant year t”

means that relevant year for the purposes of which any calculation falls to be made;

“relevant year t-1”

means the relevant year preceding relevant year t, and similar expressions shall be construed accordingly.

“remote transmission asset rentals”

means any rent or other periodic payment receivable by the licensee from an authorised electricity operator under an agreement relating to remote transmission assets.

“TIRG relevant year”

means, in relation to each transmission investment project i specified in Annex A of special condition D3 (Adjustment to the

Transmission Network Revenue Restriction due to Transmission Investment for Renewable Generation), the relevant year in which a revenue allowance falls to be made under special condition D3 (Adjustment to the Transmission Network Revenue Restriction due to Transmission Investment for Renewable Generation) with respect to that transmission investment project i , where:

- (a) $t=p$ means the relevant year commencing 1 April 2005;
- (b) $t=p$ to $t=-1$ means the preconstruction period (where $p \leq -1$);
- (c) $t=0$ means the relevant year in which construction of that transmission investment project i commences;
- (d) $t=0$ to $t=n$ means the construction period;
- (e) $t=n$ means the relevant year in which that transmission investment project i is commissioned;
- (f) $t=n+1$ means the relevant year in year 1 post commissioning period for that transmission investment project i and similar expressions shall be construed accordingly.

“transmission network revenue”	means the aggregate of revenue in the relevant year derived by the licensee from the provision of transmission network services and from remote transmission asset rentals.
“transmission network revenue restriction”	means special condition D2 (Restriction on Transmission Network Revenue), and such parts of special conditions D3 to D10 inclusive as are ancillary thereto, all as from time to time modified or replaced in accordance therewith or pursuant to sections 11, 14 or 15 of the Act.
“transmission network services”	shall have the same meaning as set out in standard condition C1 (Interpretation of Section C) (and for the avoidance of doubt shall not include excluded services or balancing services activity).
“user maintenance”	means maintenance by a user of connections in operation before the grant of this licence.

2. In this special condition and in special conditions D2 to D10 inclusive, all revenue shall be measured on an accruals basis, after deduction of value added tax (if any) and any other taxes based directly on the amounts so derived.

3. Any term used in the formulae appearing in special conditions D2 to D10 inclusive, and defined for the purposes of those formulae shall have the same meaning if used in any other formulae in those other special conditions.

4. In this special condition and in special conditions D2 to D10, any cost, charge, payment or amount may either be positive or negative.

Special Condition D2. Restriction on Transmission Network Revenue

Transmission Network Revenue Restriction

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

Formula for Transmission Network Revenue Restriction

- 2 In respect of the relevant year commencing 1 April 2007 and each subsequent relevant year t, maximum revenue shall be calculated in accordance with the following formula:

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

Where:

TO_t means maximum revenue in the relevant year t;

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

$$PR_t = RBT \times PIT_t$$

where:

RBT shall take the value £987,300,000 (being in 2004/05 prices); and

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

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

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

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

where:

PR_{t-1} means base transmission revenue in relevant year t-1 and shall be calculated in the same manner as PR_t save that references to the relevant year t shall be replaced by references to the relevant year t-1;

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

X shall take the value two;

$TIRG_t$ means, for each TIRG relevant year t, the aggregate of the annual revenue allowances for each transmission investment project specified in annex A to special condition D3 (Adjustment to the Transmission Network Revenue Restriction due to Transmission Investment for Renewable Generation) and shall be calculated in accordance with that special condition;

PT_t means the revenue adjustment term, whether of a positive or of a negative value, made in the relevant year t in respect of allowed pass through items as derived in accordance with special condition D4 (Pass Through Items);

IP_t means incentive revenue adjustment term, whether of a positive or of a negative value, calculated for the relevant year t in accordance with special condition D5 (Incentive Payments);

$CxIncRA_t$ means the capital expenditure incentive revenue adjustment term, whether of a positive or of a negative value, made in the relevant year commencing 1 April 2012 in respect of the application of the

capital expenditure incentive regime as calculated in accordance with special condition D9 (Capital Expenditure Incentive and Safety Net). For each relevant year prior to the relevant year commencing 1 April 2012 and for each relevant year after the relevant year commencing 1 April 2012 the term $CxIncRA_t$ shall take the value zero;

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

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

DIS_t means the difference (whether of a positive or negative value) between:

- (a) the total amount charged to the licensee in relevant year $t-1$ by Scottish Hydro-Electric Transmission Ltd and SP Transmission plc in respect of Site-Specific Charges (as such charges are defined in Schedule Ten of the STC); and
- (b) the total income recovered by the licensee in respect of excluded services in relevant year $t-1$ from customers in the respective transmission areas of each of Scottish Hydro-Electric Transmission Ltd and SP Transmission plc.

ER_t means the price control extension reconciliation revenue adjustment term, which in the relevant year commencing 1 April 2007 shall be calculated in accordance with the following formula:

$$ER_t = RER_t \times PIT_t$$

where:

RER_t means the allowance in respect of the revenue reconciliation adjustment and shall take the value £700,000 (in 2004/05 prices); and

PIT_t shall take the same meaning as set out in the definition of the term PR_t above.

In respect of the relevant year commencing 1 April 2008 and each subsequent relevant year t , ER_t shall take the value zero.

LC_t means the revenue adjustment term, whether of a positive or of a negative value, made in the relevant year commencing 1 April 2012 in respect of the full recovery of efficiently incurred logged up costs (adjusted for financing costs) as specified in paragraph 3 of this condition. For each relevant year prior to the relevant year commencing 1 April 2012 and for each relevant year after the relevant year commencing 1 April 2012 LC_t shall take the value zero.

TS_t means the difference, whether of a positive or of a negative value, between:

- (a) the total amount charged to the licensee in relevant year $t-1$ by Scottish Hydro-Electric Transmission Ltd and SP Transmission plc in respect of transmission owner final sums (as such charges are defined in schedule nine of the STC); and
- (b) an amount equal to the income received by the licensee in the relevant year $t-1$ in respect of users who terminate relevant bilateral agreements for connection and/or access rights to the GB transmission system in the respective transmission areas of each of Scottish Hydro-Electric Transmission Ltd and SP Transmission plc prior to commencing use of the GB transmission system (for the avoidance of doubt, including any amounts that are treated as capital contributions);

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

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

where:

AR_{t-1} means, subject to paragraph 3 of special condition D6 (Adjustments to Transmission Network Revenue), transmission network revenue, in respect of the relevant year t-1 provided that in calculating AR_{t-1} for the purpose of K_t no account shall be taken of any positive or negative revenue in respect of the provision of transmission network services in any relevant year preceding t-1 other than such revenue as it is in the reasonable opinion of the Authority reasonable and appropriate to take into account;

TO_{t-1} means the maximum revenue in the relevant year t-1 except in the relevant year commencing 1st April 2007 where it shall be the maximum revenue (M_t) for the relevant year commencing 1 April 2006 as defined by Part 1 of special condition AA5A (Revised Restriction on Revenue) in the licence in force on 31 March 2007;

I_t means the average specified rate as defined in special condition D1 (Definitions); and

PI_t means the penalty interest rate in relevant year t which is equal to, where $(AR_{t-1} - TO_{t-1})$ has a

positive value and transmission network revenue in relevant year t-1 exceeds the maximum revenue in relevant year t-1 by more than 2.75 per cent, the value four, otherwise is equal to the value zero.

3 For the purposes of paragraph 2, LC_t shall comprise the capital expenditure and operating expenditure costs incurred in the period 1 April 2007 to 31 March 2012, and reported to the Authority in accordance with standard condition B15 (Price Control Review Information), by the licensee against the following cost categories:

(a) underground cable tunnels – up to a cap of £60,000,000 (in 2004/05 values);

(b) upgrading of operational telecommunication systems resulting from the introduction of BT's 21st Century Networks programme;

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

Special Condition D3. Adjustment to the Transmission Network Revenue Restriction due to Transmission Investment for Renewable Generation

Part 1 – TIRG Revenue Adjustment Calculation

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

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

where:

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

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

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

where:

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

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

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

$ETIRG_t^i$ means the annual incentive revenue allowance for the transmission investment project i for the TIRG relevant years $t=n+1$ to $t=n+5$ and shall be calculated in accordance with paragraph 7; and

$ATIRG_t^i$ means the actual annual revenue allowance for the transmission investment project i for the TIRG relevant years $t=n+6$ to $t=n+20$ and shall be determined by the Authority in accordance with paragraph 9.

$IP TIRG_t$

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

$$IP TIRG_t^i = CFTIRG_t^i \times ARPI_t$$

where:

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

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

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

where:

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

TIRGIncAd – Income Adjusting Event

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

- (iii) the amount of any material increase or decrease in the forecast preconstruction and contingency costs for the transmission investment project i for TIRG relevant years $t=p$ to $t=-1$ (where $p \leq -1$) ($CFTIRG_t$) that the licensee can demonstrate have been, or are expected to be, incurred or saved by that event and how the amount of that increase or decrease has been calculated;
 - (iv) the reasons why the licensee considers that the costs and/or expenses can not otherwise be recovered under the TIRG revenue allowance provided by this condition;
 - (v) the amount of any $TIRGIncAd_t^i$ income adjustment allowance proposed as a consequence of that event and how this $TIRGIncAd_t^i$ income adjustment allowance has been calculated; and
 - (vi) any other analysis or information which the licensee considers to be relevant to the Authority's assessment of that event.
- (d) Where the Authority receives a notice under subparagraph (b), the Authority shall determine (after consultation with the licensee and such other persons it considers necessary):
- (i) whether a TIRG income adjusting event has occurred in respect of the transmission investment project i ; and
 - (ii) a $TIRGIncAd_t^i$ income adjustment allowance in respect of the transmission investment project i .
- (e) Where the Authority determines under subparagraph (d) that a TIRG income adjusting event has occurred in respect of the transmission investment project i , the $TIRGIncAd_t^i$ income adjustment allowance in respect of the transmission investment project i determined by the Authority under subparagraph (d) shall be such as to ensure that the financial position and performance of the licensee is, insofar as is reasonably practicable, the same as if that TIRG income adjusting event

had not occurred, and in all other cases the $TIRGI_{incAd}^i$ income adjustment allowance in respect of the transmission investment project i determined by the Authority under subparagraph (d) shall be zero.

- (f) Where the Authority makes a determination under this paragraph, the Authority shall publish a notice stating the $TIRGI_{incAd}^i$ income adjustment allowance for the transmission investment project i and the reasons for the determination.
- (g) The Authority may revoke a determination made under this paragraph with the consent of the licensee.
- (h) For the purpose of paragraph 2, the term $TIRGI_{incAd}^i$ shall be the $TIRGI_{incAd}^i$ income adjustment allowance for the transmission investment project i determined by the Authority under subparagraph (d), and where the Authority has not made a determination under subparagraph (d) shall be zero.
- (i) Where the licensee notifies the Authority of a TIRG income adjusting event under subparagraph (b), the licensee shall ensure that the costs and/or expenses that are the subject of that notification are not also notified to the Authority in relation to any other revenue recovery arrangements.

FTIRG_t

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

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

where:

CCTIRG means the pre-tax cost of capital in real terms for the transmission investment project i for each TIRG relevant year t and for the purposes of this special condition shall

take the value of eight point eight per cent (8.8%).

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

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

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

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

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

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

- (b) where the licensee has been granted planning consent to build the transmission investment project i , $FTIRGDepn_t^i$ shall have the value specified in Annex A to this condition for each TIRG relevant year t , and where no value is specified in Annex A to this condition for a TIRG relevant year t shall have the value of zero.

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

6. (a) For the purpose of this paragraph, a TIRG asset value adjusting event means relevant additional preconstruction works or a relevant amendment to the scope of construction works that the Authority is satisfied is expected to cause costs and/or expenses to be incurred or saved in relation to the transmission investment project i , where the Authority is satisfied that those costs and expenses:
- (i) are expected to result in a material increase or decrease to the average asset value for the transmission investment project i for the TIRG relevant years $t=0$ to $t=n$ ($FTIRGC_t^i$);
 - (ii) are expected to be efficiently incurred or saved; and
 - (iii) can not otherwise be recovered under the TIRG revenue allowance provided by this condition.
- (b) For the purposes of subparagraph (a) –
- (i) “relevant additional preconstruction works” means preconstruction works expected to be carried out by the licensee during the TIRG relevant years $t=0$ to $t=n$ as a result of the terms and/or conditions of any statutory consent, approval

or permission in respect of the transmission investment project i (including but not limited to planning consent); and

- (ii) “relevant amendment to the scope of construction works” means an amendment to the scope of construction works that:
 - (aa) is necessary to comply with the terms and/or conditions of any statutory consent, approval or permission in respect of the transmission investment project i (including but not limited to planning consent); or
 - (bb) is necessary to comply with technical, engineering or planning constraints in respect of the transmission investment project i that are identified by the licensee during preconstruction work.

- (c) Where the licensee considers, and can provide supporting evidence that, a TIRG asset value adjusting event has occurred in relation to the transmission investment project i, then the licensee shall give notice of that event to the Authority as soon as is reasonably practicable after that event has occurred and in any event prior to TIRG relevant year $t=0$ (or at such later date as the Authority notifies to the licensee for the purposes of this subparagraph).

- (d) A notice provided under subparagraph (c) shall be accompanied by a statement from independent technical advisors setting out the additional preconstruction works / amended scope of construction works (as appropriate) and a statement from independent auditors setting out that in their opinion the notice fairly presents the costs and expenses expected to be incurred or saved by the additional preconstruction works / amended scope of construction works (as appropriate) and shall give particulars of:
 - (i) the TIRG asset value adjusting event to which the notice relates and the reason(s) why the licensee considers that event to be a

TIRG asset value adjusting event;

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

other persons it considers necessary):

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

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

ETIRG_t

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

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

where:

CCTIRG shall have the meaning given in paragraph 5.

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

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

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

where:

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

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

ARPI_t shall have the meaning given in paragraph 3.

Dep_tⁱ means the annual depreciation allowance for TIRG relevant year t and shall have the value specified in Annex A to this condition.

- 8 (a) The Authority shall determine (in consultation with the licensee and such other persons it considers necessary) the value of the term SAFTIRGⁱ with respect to the transmission investment project i by TIRG relevant year t=n+1 where the Authority has received a post construction expenditure report and a post construction technical report in respect of the transmission investment project i in accordance with part 2 of this condition.
- (b) Where the Authority makes a determination under this paragraph, the Authority shall have regard to the following:
- (i) whether the final aggregate transmission investment expenditure set out in the post construction expenditure report has been efficiently incurred;
 - (ii) the extent to which the licensee has complied with the output measures specified in Annex A to this condition for the transmission investment project i as set out in the post

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

ATIRG

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

**Part 2 - Information to be provided to the Authority in connection with
Transmission Investment for Renewable Generation**

10. For each transmission investment project i specified in Annex A to this condition, the licensee shall provide the Authority with the following:
- (a) during or prior to TIRG relevant year $t=0$, a preconstruction technical report, accompanied by a statement from independent technical advisors, setting out:
 - (i) the $TIRG_{t=0}$ output measures assessed against the forecast output measures in Annex A to this condition for the transmission investment project i ; and
 - (ii) the $TIRG_{t=n}$ forecast output measures assessed against the forecast output measures in Annex A to this condition for the transmission investment project i ;
 - (b) not later than three months after the end of each of the TIRG relevant years $t=p$ to $t=0$ (or such later date as the Authority notifies to the licensee for the purposes of this subparagraph), a preconstruction expenditure report, accompanied by an auditor's statement, setting out an itemised report of the preconstruction expenditure incurred for the transmission investment project i during that TIRG relevant year t ;
 - (c) not later than three months after the end of each of the TIRG relevant years $t=1$ to $t=n$ (or such later date as the Authority notifies to the licensee for the purposes of this subparagraph), a construction expenditure report accompanied by an auditor's statement, setting out an itemised report of the construction expenditure incurred for the transmission investment project i during that TIRG relevant year t ; and

(d) not later than three months after the end of TIRG relevant year $t=n$ (or such later date as the Authority notifies to the licensee for the purposes of this subparagraph):

(i) a post construction expenditure report, accompanied by an independent auditor's statement, setting out the final aggregate transmission investment expenditure for the transmission investment project i , assessed against the average asset value for the transmission investment project i for TIRG relevant years $t=0$ to $t=n$ ($FTIRGC_t$); and

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

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

12. (a) The output measures specified in Annex A to this condition may be amended in accordance with this paragraph.

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

(c) Where the licensee considers, and can provide supporting evidence that, an output measures adjusting event has occurred in relation to the transmission investment project i , then the licensee shall give notice of that

event to the Authority as soon as is reasonably practicable after that event has occurred and in any event prior to TIRG relevant year $t=0$ (or at such later date as the Authority notifies to the licensee for the purposes of this subparagraph).

- (d) A notice provided under subparagraph (c) shall be accompanied by a statement from independent technical advisors setting out the amended scope of construction works and shall give particulars of:
 - (i) the output measures adjusting event to which the notice relates and the reason(s) why the licensee considers that event to be an output measures adjusting event;
 - (ii) output measures adjustment proposed as a consequence of that event and how this output measures adjustment has been calculated; and
 - (iii) any other analysis or information which the licensee considers to be relevant to the Authority's assessment of that event.
- (e) Where the Authority receives a notice under subparagraph (c), the Authority shall determine (after consultation with the licensee and such other persons it considers necessary):
 - (i) whether an output measures adjusting event has occurred in respect of the transmission investment project i ; and
 - (ii) where the Authority determines that an output measures adjusting event has occurred in respect of the transmission investment project i , an output measures adjustment in respect of the transmission investment project.
- (f) Where the Authority makes a determination under this paragraph, the Authority shall publish a notice stating the output measures adjustment for the transmission investment project i and the reasons for the determination.
- (g) The Authority may revoke a determination made under this paragraph with the consent of the licensee.

Annex A to Special Condition D3: Supplementary Provisions

National Grid

England – Scotland Interconnection

East coast and west coast reinforcement combined costs

Pre construction, contingency and construction costs

project costs (£) 2004/05 prices	t=p	t=0	t=1	t=2	t=3	t=n
Forecast pre-construction and contingency costs ($CFTIRG_t^i$)	1,976,000	n/a	n/a	n/a	n/a	n/a
Forecast Construction Costs		12,248,000	25,814,000	30,210,000	24,444,000	12,264,000
Average asset value during construction period ($FTIRGC_t^i$)	n/a	6,124,000	24,848,000	51,603,000	76,271,000	90,601,000
Depreciation during Construction ($FTIRGDepn_t^i$)			612,000	1,903,000	3,414,000	4,636,000

Post construction revenue

Project costs (£ 000) 2004 prices	t=n+1	t=n+2	t=n+3	t=n+4	t=n+5
Opening RAV ($ETIRGORAV^i$)	94,415,000				
Dep $_t^i$	4,721,000	4,721,000	4,721,000	4,721,000	4,721,000
Average asset value during efficiency period ($ETIRGC_t^i$)	92,055,000	87,334,000	82,613,000	77,893,000	73,172,000

Output measures

East coast interconnection

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

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

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

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

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

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

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

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

operation.

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

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

West coast interconnection

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

England-Scotland interconnection– reactive compensation

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

Special Condition D4. Pass Through Items

1. For the purposes of paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue), in each relevant year t , PT_t shall be derived in accordance with the following formula

$$PT_t = TSP_t + TSH_t + LF_t + RB_t - TSR_t + ITC_t + Term_t$$

where

TSP_t means the amount specified to the licensee by SP Transmission Ltd or any successor company in relation to relevant year t pursuant to its transmission licence;

TSH_t means the amount specified to the licensee by Scottish Hydro-Electric Transmission Ltd or any successor company in relation to relevant year t pursuant to its transmission licence;

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

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

TSR_t means the revenue adjustment term, whether of a positive or of a negative value, calculated in the relevant year t in respect of revenue earned by the licensee for tower space rental as derived from the formula set out in paragraph 6;

ITC_t shall take the value zero unless otherwise determined by the Authority in the event of the participation by Great Britain in a European Union inter-TSO compensation scheme, and following consultation with other interested parties; and

Term_t means an amount equal to the income received by the licensee in the relevant year t in respect of users who terminates relevant bilateral agreements for connection and /or access rights to the GB transmission system prior to commencing use of the GB transmission system (for the avoidance of doubt, net of any amounts that are treated as capital contributions).

Formula for the Licence Fee Revenue Adjustment

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

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

where:

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

LA_t is derived from the following formula:

$$LA_t = PF_t \times PIT_t$$

where:

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

Relevant year t commencing on 1 April	2007	2008	2009	2010	2011
PF _t	£8,600,000	£8,400,000	£8,200,000	£8,000,000	£8,100,000

PIT_t shall take the same meaning as given in paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue);

L_t shall, in respect of the relevant year commencing 1 April 2007, be calculated as the difference between the actual licence fee payable by the licensee in the relevant year commencing 1 April 2006 pursuant to standard condition A4 (Payments to the Authority) (being for the avoidance of doubt, in pounds sterling in money of the day) and the estimate made in respect of that relevant year of £13,200,000. In the relevant year commencing 1 April 2008 and each subsequent relevant year L_t shall take the value zero; and

I_t means the average specified rate as defined in special condition D1 (Definitions).

Formula for the Non-domestic rates Revenue Adjustment

3. For the purposes of paragraph 1, subject to paragraph 4 below, RB_t is an amount calculated in accordance with the following formula:

$$RB_t = (RP_t - RA_t) + \left(Rate_t \times \left(1 + \frac{I_t}{100} \right) \right)$$

where:

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

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

$$RA_t = RV_t \times PIT_t$$

where:

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

Relevant year t commencing on 1 April	2007	2008	2009	2010	2011
RV_t	£93,000,000	£93,000,000	£93,000,000	£93,000,000	£93,000,000

PIT_t shall take the same meaning as given in paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue);

$Rate_t$ shall, in respect of the relevant year commencing 1 April 2007, be calculated as the difference between the non-domestic rates payable by the licensee in respect of the relevant year commencing 1 April 2006 (being for the avoidance of doubt, in pounds sterling in money of the day) and the estimate made in respect of that relevant year of £94,900,000. In the relevant year commencing 1 April 2008 and each subsequent relevant year $Rate_t$ shall take the value zero; and

I_t means the average specified rate as defined in special condition D1 (Definitions).

4. From the relevant year commencing 1 April 2010, RB_t shall take the value zero, unless otherwise directed by the Authority on or before 31 March 2010.
5. For the purposes of paragraph 4 of this condition, the Authority may direct that, in respect of the formula year commencing 1 April 2010 and each subsequent formula year, RB_t be calculated in accordance with the formula set out in paragraph 3 of this condition where the Authority is satisfied that the licensee has used reasonable endeavours to minimise the amount payable for those years in respect of non-domestic rates.

Formula for the tower space rental revenue adjustment

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

$$TSR_t = 0.5 \times TSRR_{t-2}$$

where:

$TSRR_{t-2}$ means the revenue received in relevant year t-2 by the licensee from any company in respect of fees for permitting mobile telephony equipment to be installed on the licensee's electricity transmission towers.

Special Condition D5. Incentive Payments

1. For the purposes of paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue) IP_t is derived from the following formula:

$$IP_t = RI_t + IFI_t + SFI_t$$

where

RI_t means the revenue adjustment term, whether of a positive (subject to paragraph 3 of this condition) or of a negative value, reflecting the licensee's performance against a transmission network reliability incentive in the relevant incentive period relating to year t, and derived in accordance with Part 1 of this condition;

IFI_t means the revenue adjustment term in relevant year t in respect of expenditure pursuant to the Innovation Funding Incentive and shall be calculated in accordance with Part 2 of this condition; and

SFI_t means the revenue adjustment factor in respect of rates of leakage of SF₆ and shall be calculated in accordance with Part 3 of this condition.

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

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

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

where:

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

PR_{t-1} shall, in respect of the relevant year commencing on 1 April 2007, take the value £1,000,380,000. In the relevant year commencing 1 April 2008 and in each subsequent relevant year, PR_{t-1} shall take the value of PR_t calculated in accordance with the formula specified in paragraph 2 of Special Condition D2 (Restriction of Transmission Network Revenue) in respect of the relevant year t-1; and

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

If $RIP_y < RILT_y$:

$$RAF_y = RIUPA_y \left[\frac{RILT_y - RIP_y}{RILT_y} \right]$$

If $RIP_y > RIUT_y$:

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

Otherwise:

$$RAF_y = 0$$

where:

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

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

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

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

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

Relevant year t	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Incentive Period y	1 April 2006 to 31 March 2007	1 April 2007 to 31 March 2008	1 April 2008 to 31 March 2009	1 April 2009 to 31 March 2010	1 April 2010 to 31 March 2011	1 April 2011 to 31 March 2012
RIUPA_y	1.0%	1.0%	1.0% (subject to paragraph 3)	1.0% (subject to paragraph 3)	1.0% (subject to paragraph 3)	1.0% (subject to paragraph 3)

RIDPA_y is the maximum downside percentage adjustment in respect of incentive period y, which has the value as specified in the following table:

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

$RICOL_y$ is the incentivised loss of supply collar in respect of incentive period y which has the value as specified in the following table:

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

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

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

- For the purposes of calculating RAF_y , $RIUPA_y$ shall take the value specified in the relevant table in paragraph 2 above before 1 April 2009 or such later date as the Authority may direct. After 1 April 2009 or such later date as the Authority may direct, $RIUPA_y$ shall take the value specified in the relevant table in paragraph 2 above for relevant years during which the licensee implements an approved network output measures methodology in accordance with standard condition B17 (Network Output Measures), and shall take the value zero for relevant years during which the licensee fails to implement the methodology, unless otherwise directed by the Authority.

4. The licensee shall prepare and maintain a transmission reliability incentive methodology statement approved by the Authority, setting out the methodology by which the licensee will determine the volume of unsupplied energy in each incentivised loss of supply event.
5. The licensee shall use reasonable endeavours to apply the methodology set out in the statement in calculating the volume of unsupplied energy in relation to any incentivised loss of supply event.
6. Before revising the methodology referred to in paragraph 4, the licensee shall submit to the Authority a copy of the proposed revisions to the methodology.
7. Unless the Authority otherwise directs within 1 month of the Authority receiving any proposed revisions to the methodology under paragraph 6, the licensee shall use reasonable endeavours to apply the methodology revised in accordance with such proposed revisions.
8. For the purposes of this special condition “incentivised loss of supply event” shall mean any event on the licensee’s transmission system that causes electricity not to be supplied to a customer subject to the following exclusions:
 - (a) any such event that causes electricity to not be supplied to 3 or less directly connected parties;
 - (b) any unsupplied energy resulting from a shortage of available generation;
 - (c) any unsupplied energy resulting from a de-energisation or disconnection of a user’s equipment under an event of default as defined in the CUSC;
 - (d) any unsupplied energy resulting from a user’s request for disconnection in accordance with the Grid Code;
 - (e) any unsupplied energy resulting from a planned outage as defined in the Grid Code;

- (f) any unsupplied energy resulting from emergency de-energisation by a user as defined in the CUSC; and
 - (g) any unsupplied energy resulting from an emergency de-energisation or disconnection of a user's equipment necessary to ensure compliance with the Electricity Safety, Quality and Continuity Regulations 2002, as amended from time to time, or to otherwise ensure public safety.
9. For the purpose of paragraph 8 a “directly connected party” is any party with a direct connection to the licensee's transmission system with the exception of any connection to a distribution system.
10. Where:
- (a) the licensee considers that any event on the licensee's transmission system that causes electricity not to be supplied to a customer has been wholly or partially caused by an exceptional event;
 - (b) the licensee has notified the Authority of such event within 14 days of its occurrence;
 - (c) the licensee has provided details of the volume of unsupplied energy that the licensee considers resulted from the exceptional event and such further information, if any, as the Authority may require in relation to such an exceptional event; and
 - (d) the Authority is satisfied that the event notified to it under sub-paragraph (b) is an exceptional event

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

11. For the purpose of paragraph 10, the adjustment directed by the Authority shall be based on the extent to which the Authority is satisfied that the licensee had taken reasonable steps to prevent the event having the effect of interrupting supply and to mitigate its effect (both in anticipation and subsequently).

12. A direction under paragraph 10 shall not have effect unless, before it is made, the Authority has given notice to the licensee:
 - (a) setting out the terms of the proposed direction;
 - (b) stating the reasons why it proposes to issue the direction; and
 - (c) specifying the period (not being less than 14 days from the date of the notice) within which the licensee may make representations or objectionsand the Authority has considered such representations or objections and given reasons for its decision.

13. For the purpose of paragraph 10, an “exceptional event” means an event or circumstance that is beyond the reasonable control of the licensee and which results in or causes electricity not to be supplied to a customer and includes (without limitation) an act of the public enemy, war declared or undeclared, threat of war, terrorist act, revolution, riot, insurrection, civil commotion, public demonstration, sabotage, act of vandalism, fire (not related to weather), any severe weather event resulting in more than 50 faults being recorded by the licensee on the licensee’s transmission system in any 24 hour period, governmental restraint, Act of Parliament, other legislation, bye law or directive (not being any order, regulation or direction under section 32, 33, 34 and 35 of the Act) or decision of a Court of competent authority or the European Commission or any other body having jurisdiction over the activities of the licensee provided that lack of funds shall not be interpreted as a cause beyond the reasonable control of the licensee.

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

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

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

where:

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

PR_t means the regulated transmission revenue in the relevant year t as determined in accordance with paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue);

$ptri_t$ is the pass-through factor applicable for the relevant year t and shall in the relevant year commencing 1 April 2007 and each subsequent relevant year take the value 0.8; and

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

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

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

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

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

$$KIFI_t = (0.005 \times PR_{t-1}) - IFIE_{t-1}$$

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

$$KIFI_t = 0$$

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

16. For the purposes of this condition:

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

“eligible IFI projects” means those projects that meet the requirements described for such projects;

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

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

Part 3 - adjustment to restriction of transmission charges due to SF₆ incentive

17. The purpose of this condition is to provide for adjustments to allowed revenue to reflect performance of the licensee in relation to its Sulphur Hexafluoride (SF₆) incentive scheme.

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

$$SFI_t = 0.002 \times PR_t$$

otherwise: SFI_t shall take the value zero.

where:

PR_t means the licensee's base transmission revenue, as defined in paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue)

ALK_t means the actual leakage rate of SF_6 gas in relevant year t as a percentage of inventory of SF_6 gas as reported by the licensee pursuant to the revenue reporting Regulatory Instructions and Guidance issued in accordance with standard condition B16 (Price Control Revenue Reporting and Associated Information); and

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

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

19. The licensee shall on or before 1 April 2007 or such later date as the Authority may direct, submit to the Authority a leakage rate of SF_6 methodology statement consistent with best industry practice, setting out the methodology by which the licensee will determine the leakage rate of SF_6 gas, required for the calculation of the actual leakage rate of SF_6 gas, ALK_t , and the target leakage rate of SF_6 gas, TLK_t .
20. Unless the Authority directs otherwise within 2 months of the date on which the licensee submits the statement to the Authority in accordance with paragraph 19, the licensee shall take all reasonable steps to apply the methodology set out in that statement.

21. Before revising the methodology referred to in paragraph 19 the licensee shall submit to the Authority a copy of the proposed revisions to the methodology.
22. Unless the Authority otherwise directs within 1 month of the Authority receiving any proposed revisions to the methodology under paragraph 21, the licensee shall take all reasonable steps to apply the methodology revised in accordance with such proposed revisions.
23. Where:
 - (a) the licensee considers that any event on the licensee's transmission system that causes leakage of SF₆ gas has been wholly or partially caused by an exceptional event;
 - (b) the licensee has notified the Authority of such event within 14 days of its occurrence;
 - (c) the licensee has provided details of the exceptional event and such further information, if any, as the Authority may require in relation to such an exceptional event; and
 - (d) the Authority is satisfied that the event notified to it under sub-paragraph (b) is an exceptional event

the Authority may, by notice to the licensee, direct that the actual leakage of SF₆ gas and the value of ALK_t in relevant year t shall be adjusted as specified in that direction. In directing the value of any adjustment to ALK_t in relevant year t pursuant to this paragraph, the Authority shall reserve the right to modify the value of any proposed adjustment notified by the licensee that may be made to ALK_t in relevant year t.

24. For the purpose of paragraph 23, any adjustment directed by the Authority shall take account of the extent to which the Authority is satisfied that the licensee had

taken reasonable steps to prevent the event from resulting in the leakage of SF₆ and to mitigate its effect (both in anticipation and subsequently).

25. A direction under paragraph 23 shall not have effect unless, before it is made, the Authority has given notice to the licensee:

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

and the Authority has considered such representations or objections and given reasons for its decision.

26. For the purpose of paragraph 23, an “exceptional event” means an event or circumstance that is beyond the reasonable control of the licensee and which results in, causes or prohibits the timely prevention of the leakage of SF₆ gas and includes (without limitation) an act of the public enemy, war declared or undeclared, threat of war, terrorist act, revolution, riot, insurrection, civil commotion, public demonstration, sabotage, act of vandalism, fire (not related to weather), governmental restraint, Act of Parliament, any other legislation, bye law or directive (not being any order, regulation or direction under section 32, 33, 34 and 35 of the Act) or decision of a Court of competent authority or the European Commission or any other body having jurisdiction over the activities of the licensee provided that lack of funds shall not be interpreted as a cause beyond the reasonable control of the licensee.

27. Without prejudice to paragraph 26, an “exceptional event” may include circumstances where a significant danger to the public gives rise to the licensee prioritising health and safety over the reduction of leakage of SF₆ gas at a particular site.

Special Condition D6. Adjustments to Transmission Network Revenue

1. If, in respect of any relevant year, the transmission network revenue exceeds the maximum revenue by more than 3.75 percent of the latter, the licensee shall furnish an explanation to the Authority and in the next following relevant year the licensee shall not effect any increase in charges for the provision of transmission network services unless it has demonstrated to the reasonable satisfaction of the Authority that the transmission network revenue would not be likely to exceed the maximum revenue in that next following relevant year.
2. If, in respect of any two successive relevant years, the sum of the amounts by which the transmission network revenue has exceeded the maximum revenue is more than 4.75 percent of the maximum revenue for the second of those years, then in the next following relevant year the licensee shall, if required by the Authority, adjust its charges such that the transmission network revenue would not be likely, in the judgement of the Authority, to exceed the maximum revenue in that next following relevant year.
3. If, in respect of two successive relevant years, the transmission network revenue is less than 90 percent of the maximum revenue, the Authority, after consultation with the licensee, may direct that, in calculating K_t in respect of the next following relevant year, there shall be substituted for AR_{t-1} in the formula set out in paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue) above such figure as the Authority may specify being not less than AR_{t-1} and not more than $0.90(TO_{t-1})$.

Special Condition D7. Allowance in Respect of Security Costs

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

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

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

- (a) the amount of the licensee's allowed security costs;
 - (b) the aggregate amounts charged under paragraph 3 on account of the licensee's allowed security costs; and
 - (c) the bases and calculations underlying the increases in charges made by the licensee in its provision of transmission network services together with an explanation of the basis of attribution of allowed security costs to the provision of transmission network services.
6. Where the Authority is satisfied that the licensee has recovered amounts in excess of the allowed security costs attributable to the provision of transmission network services, the Authority may issue directions requiring the licensee to take such steps as may be specified to reimburse customers in receipt of transmission network services for the excess amounts charged to them, and the licensee shall comply with any directions so issued provided that if the excess amounts relate to allowed security costs paid to any authorised electricity operator, the licensee shall not be obliged to make any such reimbursement unless and until it has recovered such costs from the relevant authorised electricity operator.
7. No amounts charged by the licensee under this special condition (whether or not subsequently required to be reimbursed) shall be taken into account for the purpose of applying the provisions of special condition D2 (Restriction on Transmission Network Revenue).
8. In this special condition:
- | | |
|-------------------------|---|
| "allowed security cost" | shall have the meaning ascribed to that term in the Fuel Security Code. |
| "security period" | means a period commencing on the date on which any direction issued by the Secretary of State under Section 34(4) of the Act enters effect and terminating on the date (being not earlier than the date such direction, as varied, is revoked or expires) as the Authority, after consultation with such persons (including, without limitation, licence holders liable to be principally |

affected) as it shall consider appropriate,
may with the consent of the Secretary of
State by notice to all licence holders
determine after having regard to the views
of such persons.

Special Condition D8. Duration of the Transmission Network Revenue Restriction

1. The transmission network revenue restriction shall apply so long as this licence continues in force but shall cease to have effect in such circumstances and at such times as are described in paragraphs 2 to 6 below.
2. The transmission network revenue restriction (or any part of it) shall cease to have effect (in whole or in part, as the case may be) if the licensee delivers to the Authority a disapplication request made in accordance with paragraph 3 or if notice is given to the Authority by the licensee in accordance with either paragraph 5 or paragraph 6.
3. A disapplication request shall:
 - (i) be in writing addressed to the Authority;
 - (ii) specify whether it relates to the transmission network revenue restriction or to any part thereof; and
 - (iii) state the date (being not earlier than the date referred to in paragraph 4) from which the licensee wishes the Authority to agree that that condition or conditions (or part or parts thereof) shall cease to have effect.
4. No disapplication following delivery of a disapplication request shall have effect until a date (the “disapplication date”) being 31 March in the first relevant year ending more than 18 months after the date of that disapplication request..
5. If the Authority has not made a reference to the Competition Commission under section 12 of the Act relating to the modification of the conditions or the part of parts thereof specified in the disapplication request before the beginning of the period of 6 months which will end on the disapplication date, the licensee may deliver written notice to the Authority terminating the application of such conditions (or any part or parts thereof) as are specified in the disapplication request with effect from 1 April in the relevant year first commencing after the disapplication date.

6. If the Competition Commission makes a report on a reference made by the Authority relating to the modification of the conditions (or any part or parts thereof) specified in the disapplication request and such report does not include a conclusion that:

- (a) the cessation of those conditions, in whole or in part, operates or may be expected to operate against the public interest; or
- (b) that any adverse effects specified by the Competition Commission could be remedied or prevented by such modifications of the relevant conditions as are specified in the report,

the licensee may within 30 days after the publication of the report by the Authority in accordance with section 13 of the Act deliver to the Authority written notice terminating the application of those conditions or any part or parts thereof with effect from the disapplication date or later.

Special Condition D9: Capital Expenditure Incentive and Safety Net

1. The purpose of this condition is to set out how the Capital Expenditure Incentive and Safety Net, as described in the Transmission Price Control Review Final Proposals document of December 2006 (Reference number: 206/06), will operate.

Part 1: Capital Expenditure Incentive Revenue Adjustment

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

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

where:

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

CIR_n means the capital expenditure incentive sharing factor, representing the proportion of the licensee's exposure to under or overspend against the capital expenditure allowance for the relevant year n that would be borne by the licensee during the revenue restriction period if no adjustment were to be made to the licensee's revenue in accordance with this condition and shall take the value set out in the table below:

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

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

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

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

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

where:

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

PIT_n shall take the value of PIT_t for relevant year t=n, where PIT_t shall take the same meaning as given in paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue);

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

Relevant year commencing 1 April:	2007	2008	2009	2010	2011
BC _{x_n}	£521,200,000	£501,000,000	£545,400,000	£613,600,000	£636,600,000

LV_n means, in respect of the relevant year n, the adjustment to the capital expenditure allowance arising from:

- (a) the volume of zonal additional generation entry capacity;
- (b) the volume of zonal surplus (or deficit); or
- (c) the amount of transfer capacity between Scotland and England, differing from the deemed baseline or base scenario values used for the purposes of deriving the term BC_{x_n} set out in this paragraph and shall be calculated in accordance with paragraph 6 of this condition;

NTP_n means the capital shortfall in relation to capital expenditure efficiently incurred in respect of the relevant year n for the purpose of facilitating the connection and/or access rights of users where the users terminate relevant bilateral agreements prior to commencing use of the GB transmission system, which shall be calculated in accordance with the following:

$$NTP_n = \frac{(TP_n - TPR_n)}{PIT_n}$$

where:

TP_n means the capital expenditure efficiently incurred in respect of the relevant year n for the purpose of facilitating the connection and/or access rights of users where the users terminate relevant bilateral agreements prior to commencing use of the GB transmission system and as reported to the Authority pursuant to standard condition B15 (Price Control Review Information);

TPR_n means the termination receipts received, in the form of revenues or capital contributions, in respect of TP_n in the

relevant year n;

PIT_n shall take the value of PIT_t for relevant year $t=n$, where PIT_t shall take the same meaning as given in paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue); and

PIT_t shall take the same meaning as given in paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue)

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

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

where:

Cx_n means the capital expenditure, expressed net of pensions contributions incurred by the licensee in the relevant year n, as reported to the Authority pursuant to standard condition B15 (Price Control Review Information). Such capital expenditure shall not include capital expenditure incurred by the licensee in the relevant year n in respect of the transmission investment projects identified in Annex A of special condition D3 (Adjustment to the Transmission Network Revenue Restriction due to Transmission Investment for Renewable Generation);

$ESCx_n$ means that amount of capital expenditure incurred by the licensee in the provision of excluded services as set out in special condition D10 (Excluded Services) in the relevant year n in its transmission area less any contributions to the capital cost of that expenditure made by or on behalf of the persons to whom such excluded services are provided and as reported to the Authority pursuant to standard condition B15 (Price Control Review Information);

LCx_n means that amount of capital expenditure incurred by the licensee in respect of the relevant year n that falls to be treated as logged up capital expenditure as specified in paragraph 11 to this condition and as reported to the Authority pursuant to standard condition B15 (Price Control Review Information);

TP_n shall take the same meaning as given in paragraph 2 of this condition; and

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

4. For the purposes of paragraph 3, before issuing a direction that certain capital expenditure is deemed inefficient the Authority shall issue a notice to the licensee specifying:
 - (a) the capital expenditure that the Authority proposes to deem inefficient;
 - (b) the reasons why the Authority considers that the capital expenditure referred to in sub-paragraph (a) is inefficient; and
 - (c) the date, being of no less than 28 days from the date of the notice, by which the licensee may make representations to the Authority in respect of the notice.
5. The Authority shall have regard to any representations made by the licensee in response to the notice referred to in paragraph 4 before making any direction in respect of paragraph 3.
6. For the purposes of paragraph 2, LV_n shall be calculated in accordance with the following formula:

$$LV_n = LVGC_n + LVZS_n + LVZD_n + LVST_n + LVWIP_n$$

where:

LVGC_n means the adjustment in the capital expenditure allowance in respect of the relevant year n relative to the base capital expenditure allowance (BCx_n) to reflect requirements for local reinforcement works associated with the connection of additional

generation entry capacity, and shall be calculated in accordance with paragraph 7 of this condition;

LVZS_n means the adjustment in the capital expenditure allowance in respect of the relevant year n relative to the base capital expenditure allowance (BCx_n) to reflect the need to accommodate zonal surpluses of generation capacity, and shall be calculated in accordance with paragraph 8 of this condition;

LVZD_n means the adjustment in the capital expenditure allowance in respect of the relevant year n relative to the base capital expenditure allowance (BCx_n) to reflect the need to accommodate zonal deficits of generation capacity, and shall be calculated in accordance with paragraph 9 of this condition;

LVST_n means the adjustment in the capital expenditure allowance in respect of the relevant year n relative to the base capital expenditure allowance (BCx_n) to reflect the need to accommodate additional transfers from Scotland to England, and shall be calculated in accordance with paragraph 10 of this condition; and

LVWIP_n means the adjustment in the capital expenditure allowance in relevant year n relative to the base capital expenditure allowance (BCx_n) in respect of works carried out by the licensee which would otherwise be included within LVGC_n, LVZS_n, LVZD_n, and LVST_n had the relevant change in volume been provided (“work in progress”) and shall take the value zero unless the Authority directs that this adjustment shall have a positive value to reflect such work in progress.

7. For the purposes of paragraph 6, LVGC_n shall be calculated in accordance with the following formula:

$$LVGC_n = \sum_{all\ j} [UCAGC_j \times (AVGC_{j,n} - AVGC_{j,n-1})]$$

where

UCAGC_j means the unit cost allowance in respect of local reinforcement works associated with the connection of additional generation

capacity in zone j and shall take the values specified in Table 5 of Annex B to this condition;

j means the revenue driver zones identified in Annex A to this condition;

AVGC_{j,n} means the generation entry capacity adjustment volume for zone j in the relevant year n and shall be calculated using the following formula:

$$AVGC_{j,n} = GC_{j,n} - BGC_{j,n}$$

where:

GC_{j,n} means the sum for zone j of all increments to individual relevant generation entry capacities (in MW) and shall be calculated using the following formula:

$$GC_{j,n} = \sum_{\text{all } k} [Max((GN_{k,n} - BGN_k), 0)]$$

where:

GN_{k,n} means maximum of the individual relevant generation entry capacities in any relevant year from the relevant year commencing 1 April 2007 up to and including relevant year n for an individual power station k in zone j for which access charges were levied in any relevant year from the relevant year commencing 1 April 2007 up to and including relevant year n. The relevant generation entry capacity for an individual power station shall be the largest holding or (if greater than the holding) use of entry capacity rights (through any combination of firm access products) held or used by an individual power station for a total period not less than 5 days during the relevant year n;

BGN_k means the individual relevant generation entry capacities which were delivered and subject to

access charges at any point in the relevant year commencing 1 April 2006;

k means each individual power station in zone j;

BGC_{j,n} means the baseline generation entry capacity for zone j in the relevant year n and shall take the values in Table 1 of Annex B to this condition; and

AVGC_{j,n-1} means the generation entry capacity adjustment volume for zone j in the relevant year n-1 and shall be derived as follows:

- a) in the relevant year commencing 1 April 2007, shall have the value zero; and
- b) in each subsequent relevant year AVGC_{j,n-1} shall be calculated in the same manner as AVGC_{j,n} save that references to the relevant year n shall be replaced by references to the relevant year n-1.

8. For the purposes of paragraph 6, LVZS_n shall be calculated in accordance with the following formula:

$$LVZS_n = \sum_{\text{all } j} [(UCAZS_j) \times (AVZS_{j,n} - AVZS_{j,n-1})]$$

where

UCAZS_j means the unit cost allowance reflecting the need to accommodate zonal surpluses of generation capacity and shall take the values specified in Table 5 of Annex B to this condition;

j means the revenue driver zones identified in Annex A to this condition;

AVZS_{j,n} means the zonal surplus adjustment volume for zone j in the relevant year n and shall be calculated using the following formula:

$$AVZS_{j,n} = [\max(ZS_{j,n}, LZS_j) - \max(BZS_{j,n}, LZS_j)]$$

where

LZS_j means the baseline zonal surplus for zone j and shall take the values in Table 2 of Annex B to this condition for all relevant years n;

$BZS_{j,n}$ means the base scenario zonal surplus output in MW for zone j in the relevant year n and shall take the values specified in Table 2 of Annex B to this condition; and

$ZS_{j,n}$ means the zonal surplus in MW for zone j in the relevant year n and shall be calculated in accordance with the following formula:

$$ZS_{j,n} = ZGen_{j,n} + ZClos_{j,n} - ZDem_j,$$

where:

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

$ZClos_{j,n}$ means the sum across all users connected in zone j of all individual reductions in generation entry capacities in MW for which access charges were paid in the relevant year n-1 but not in the relevant year n (for the avoidance of doubt this number can take a zero or positive value); and

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

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

where:

$FDem_{j,t}$ means the sum for zone j of

all Grid Supply Point demand nominations in MW for time of national peak demand made in relevant year n-1 for relevant year n;

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

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

AVZS_{j,n-1} means the zonal surplus adjustment volume for zone j in the relevant year n-1 and shall be derived as follows:

- a) in the relevant year commencing 1 April 2007, shall have a value equal to zero; and
- b) in each subsequent year, AVZS_{j,n-1} shall be calculated in the same manner as AVZS_{j,n} save that references to the relevant year n shall be replaced by references to the relevant year n-1 and references to the year n-1 shall be replaced by references to the relevant year n-2.

9. For the purposes of paragraph 6, LVZD_n shall be calculated in accordance with the following formula:

$$LVZD_n = \sum_{\text{all } j} [(UCAZD_j) \times (AVZD_{j,n} - AVZD_{j,n-1})]$$

where:

UCAZD_j means the unit capital expenditure cost allowance in 2004/05 prices

for the infrastructure required to accommodate the zonal deficit for zone j, and shall take the values specified in Table 5 of Annex B of this condition;

j means the revenue driver zones identified in Annex A to this condition;

AVZD_{j,n} means the zonal deficit adjustment volume for zone j in the relevant year n and shall be calculated as follows:

$$AVZD_{j,n} = [\max(ZD_{j,n}, LZD_j) - \max(BZD_{j,n}, LZD_j)]$$

where:

LZD_j means the baseline zonal deficit in MW for zone j, as specified in Table 3 of Annex B to this condition;

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

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

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

where:

ZDem_{j,n} shall have the same meaning as given in paragraph 8 of this condition;

ZGen_{j,n} shall have the same meaning as given in paragraph 8 of this condition; and

AVZD_{j,n-1} means the zonal deficit adjustment volume for zone j in the relevant year n-1 and shall be derived as follows:

- a) in the relevant year commencing 1 April 2007, shall have a value equal to zero; and
- b) in each subsequent year, AVZD_{j,n-1} shall be calculated in the same manner as AVZD_{j,n} save that references to the relevant year n shall be replaced by references to the relevant year n-1 and references to the relevant year n-1 shall be replaced by references

to the relevant year n-2.

10. For the purposes of paragraph 6 $LVST_n$ shall be calculated in accordance with the following formula:

$$LVST_n = [(UCAST) \times (AVST_n - AVST_{n-1})]$$

where:

$UCAST$ means the unit capital expenditure cost allowance in 2004/05 values for reinforcements associated with accommodating higher transfers from Scotland to England, and shall take the value £320,700 per MW;

j means the revenue driver zones identified in Annex A to this condition;

$AVST_n$ means the adjustment volume of delivered long-term output capacity in MW of the network between Scotland to England in the relevant year n and shall be calculated in accordance with the following formula:

$$AVST_n = ST_n - BST_n$$

where:

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

BST_n means the base scenario output capacity in MW of the network between Scotland and England in the relevant year n, and shall take the values specified in Table 4 of Annex B to this condition; and

$AVST_{n-1}$ means the adjustment volume of delivered long-term output capacity in MW of the network between Scotland to England in the

relevant year n-1 and shall be derived as follows:

- a) in the relevant year commencing 1 April 2007, shall have a value equal to zero; and
 - b) in each subsequent year, $AVST_{n-1}$ shall be calculated in the same manner as $AVST_n$ save that references to the relevant year n shall be replaced by references to the relevant year n-1.
11. For the purposes of paragraph 3, LCx_n shall comprise those costs incurred and reported to the Authority in accordance with standard condition B15 (Price Control Review Information), by the licensee against the following cost categories:
- (a) underground cable tunnels – up to a cap of £60,000,000 (in 2004/05 values);
 - (b) upgrading of operational telecommunication systems resulting from the introduction of BT’s 21st Century Networks programme;
- subject to the licensee satisfying the Authority that such costs have been efficiently incurred.
12. For the purposes of this condition, the licensee shall, not later than 31 July in the relevant year commencing 1 April 2008 and each subsequent relevant year n, submit a report to the Authority (in a form approved by the Authority) giving the outturn values of all of the variables stipulated in this condition in respect of the relevant year n-1 in accordance with standard condition B15 (Price Control Review Information).

Part 2: Capital Expenditure Safety Net

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

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

where:

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

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

PIT_t shall take the same meaning as given in paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue); and

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

14. The licensee shall use reasonable endeavours to estimate relevant capital expenditure in respect of the relevant year t and each subsequent relevant year up to and including the relevant year commencing 1 April 2011.

15. For the purposes of paragraph 16, the relevant capital expenditure allowance ($RelACx_t$) in the relevant year t shall be calculated in accordance with the following formula:

$$RelAC_t = BCx_t$$

where

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

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

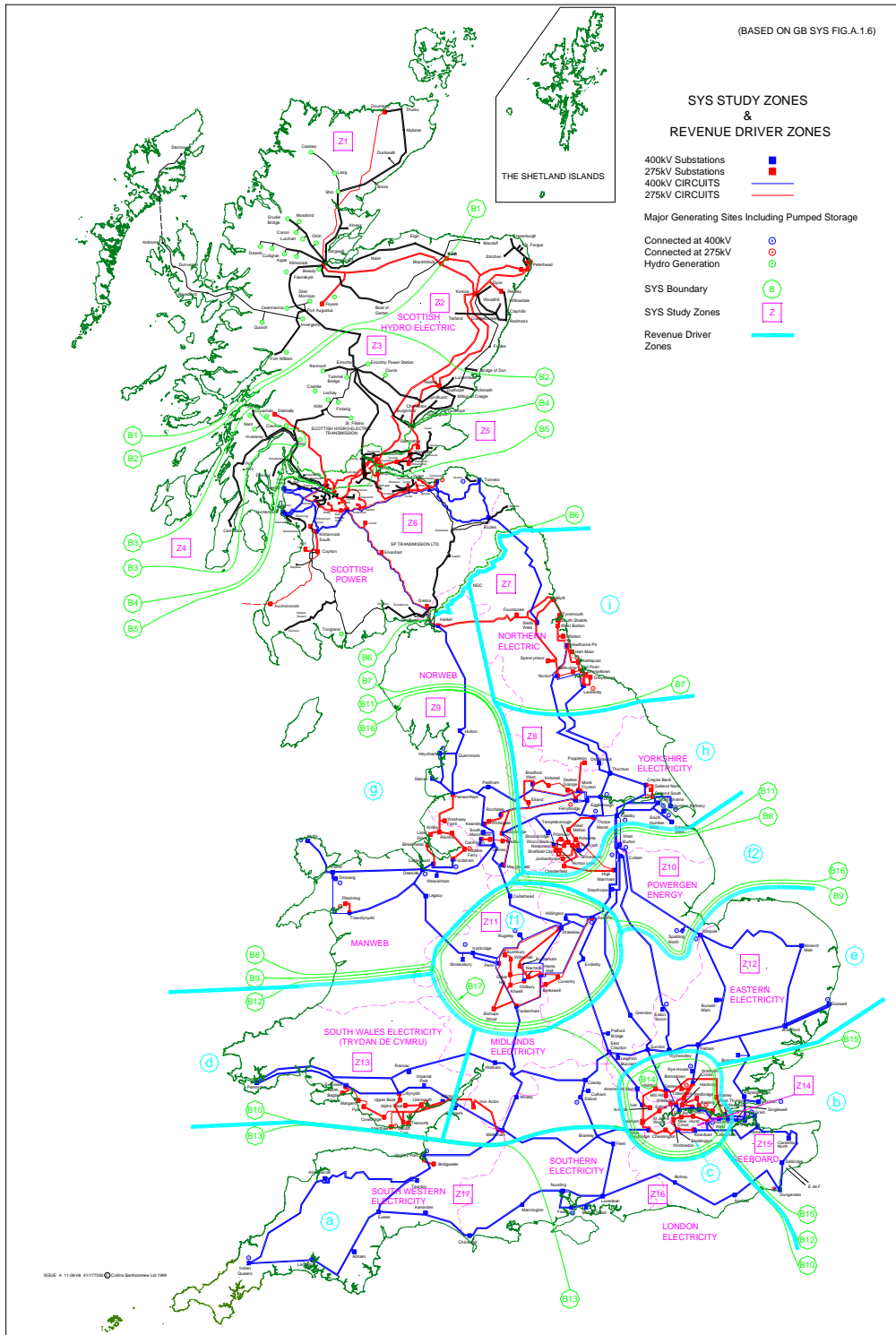
(a) the amount by which the licensee expects relevant capital expenditure to fall below $RelACx_t$ in respect of that same relevant year;

(b) the factors which, in the licensee's reasonable opinion, has or is likely to result in the shortfall referred to in sub-paragraph (a).

17. The Authority may request any additional information in relation to paragraphs 13 to 16 of this condition that it considers is reasonably necessary to exercise its duties and functions under the Act. Such a request shall be made in writing to the licensee and specify the date by which information shall be provided being not less than 14 days from the date of the notice.

18. Where the Authority issues a request pursuant to paragraph 17, the licensee shall, unless the Authority agrees otherwise, provide such information that has been requested by the Authority by the date specified in the request
19. The Authority may, having considered the information provided by the licensee pursuant to this condition, by notice to the licensee set out that it proposes to reduce the value of base transmission network revenue set out in paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue). Such notice shall specify:
 - (a) the amount by which the Authority proposes reduce base transmission revenue as a result of relevant capital expenditure $RelC_{x_t}$ being less than $0.8 \times (RelAC_{x_t})$;
 - (b) the date on which the Authority proposes that the proposed reduction in base transmission revenue would take effect;
 - (c) the reasons why the Authority considers that the proposed reduction is appropriate;
 - (d) the date, being of no less than 28 days from the date of the notice, by which the Authority invites comments from the licensee; and
 - (e) the date by which the Authority intends to give such notice of proposed licence amendments pursuant to section 11 (or as the case may be, section 12) of the Act.
20. The Authority shall have regard to any representations made by the licensee in response to the notice referred to in paragraph 19 before formally proposing the modification to the value of base transmission revenue in paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue) referred to in the notice pursuant to section 11 (or as the case may be, section 12) of the Act.
21. The proposals provided to the licensee pursuant to paragraph 19 above shall be constructed, so far as is reasonably practicable, to reduce the licensee's base transmission network revenue by an amount which is no more than an amount which represents the savings in financing costs, including depreciation, in respect of a reduction to the capital expenditure allowance determined by the Authority for the purpose of this part of this condition in the light of information provided by the licensee in accordance with this part of this condition.

Annex A to Special condition D9 (Capital Expenditure Incentive and Safety Net): Definition of zones



Annex B to Special Condition D9 (Capital Expenditure Incentive and Safety Net): Parameters

Table 1: Values for BGC_{j,n} (in MW)

	BGC_{j,n} in formula year commencing 1 April:				
	2007	2008	2009	2010	2011
South and South West	0	1700	1700	2100	2100
Thames Estuary	0	0	200	1640	1840
London	0	0	0	0	0
South Wales	0	0	0	0	0
E and Home Counties	0	0	0	0	0
West Midlands	0	0	0	0	0
East Midlands	0	0	0	0	0
NW and North Wales	52	94	94	94	344
Yorks and Lines	0	0	0	300	540
North East	0	0	0	0	0

Table 2: Values for LZS_j and BZS_{j,n} (in MW)

	LZS_j	BZS_{j,n} in formula year commencing 1 April:				
		2007	2008	2009	2010	2011
South and South West	-4654	-4735	-3129	-3195	-2837	-2880
Thames Estuary	6,938	6878	6165	6284	7682	7838
London	-6,808	-6950	-7109	-7230	-7314	-7412
South Wales	5241	2096	2112	1628	1622	1614
E and Home Counties	301	-709	-818	-1389	-1408	-1462
West Midlands	-3408	-3466	-3536	-3580	-3596	-3624
East Midlands	6431	4725	4714	4708	4703	4703
NW and North Wales	2366	2373	2385	2427	2455	1715
Yorks and Lincs	7679	7672	7655	7658	7980	8236
North East	482	479	505	505	515	525

Table 3: Values for LZD_j and BZD_{j,n} (in MW)

	LZD_j	BZD_{j,n} in formula year commencing 1 April:				
		2007	2008	2009	2010	2011
South and South West	4654	4735	3129	3195	2837	2880
Thames Estuary	-6,938	-6228	-6138	-6284	-7682	-6762
London	6,808	6950	7109	7230	7314	7412
South Wales	-3641	-2096	-1642	-1628	-1622	-1614
E and Home Counties	-301	709	1314	1389	1408	1462
West Midlands	3408	3466	3536	3580	3596	3624
East Midlands	-6431	-4725	-4714	-4708	-4703	-4703
NW and North Wales	-2366	-2373	-2385	-2427	-1475	-1715
Yorks and Lines	-7679	-7672	-7655	-7658	-7980	-8236
North East	-482	-479	-505	-505	-515	-525

Table 4: Values for BST_n (in MW)

	Formula year commencing 1 April:				
	2007	2008	2009	2010	2011
BST_n	2200	2200	2200	2800	3200

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

	UCAGC_j	UCAZS_j	UCAZD_j
South and South West	17,500	0	23,300
Thames Estuary	17,500	70,000	0
London	70,000	0	291,600
South Wales	17,500	29,200	23,300
E and Home Counties	11,700	75,800	17,500
West Midlands	5,800	0	46,700
East Midlands	5,800	64,100	11,700
NW and North Wales	35,000	52,500	0
Yorks and Lines	17,500	70,000	0
North East	17,500	58,300	0

Special Condition D10. Excluded Services

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

2. No service provided by the licensee as part of its transmission business shall be treated as an excluded service in so far as it relates to the provision of services remunerated under use of system charges in accordance with paragraph 2 of standard condition C4 including (without prejudice to the foregoing):
 - (a) the transport of electricity;
 - (b) the operation of the licensee's transmission system;
 - (c) the carrying out of works for the installation of electric lines or electrical plant (not otherwise payable in the form of connection charges) for the purpose of maintaining or upgrading the licensee's transmission system;
 - (d) the carrying out of works or the provision of maintenance or repair or other services for the purpose of enabling the licensee to comply with conditions 8 and 12, the Electricity Supply Regulations 1988 or any regulations made under section 29 of the Act or any other enactment relating to safety or standards applicable in respect of the transmission business; and
 - (e) the provision, installation and maintenance of any meters, switchgear or other electrical plant ancillary to the grant of use of system.

3. The whole or an appropriate proportion (as the case may be) of the charges of the

type described in paragraph 4 of standard condition C6 and borne by any person as connection charges in respect of connections made to a licensee's transmission system after the grant of the licence to the relevant transmission licensee may be treated as excluded services.

4. There may be treated as an excluded service charges for the relocation of electric lines or electrical plant and the carrying out of works associated therewith pursuant to a statutory obligation (other than under section 9(2) of the Act) imposed on the licensee.
5. There may with the approval of the Authority be treated as an excluded service any service of a type not above referred to which:
 - (a) consists in the provision of services for the specific benefit of a third party requesting the same; and
 - (b) is not made available by the licensee as a normal part of the transmission business remunerated by use of system charges.
6. Where the Authority is satisfied that in light of the principles set out in paragraphs 2 to 5 inclusive any service treated by the licensee as an excluded service should not be so treated, the Authority shall issue directions to that effect, and such service shall cease to be treated as an excluded service with effect from the date of issue of such directions or such earlier date as may be specified in the directions (being not earlier than the commencement of the relevant year to which the information relating to excluded services last furnished pursuant to the revenue reporting Regulatory Instructions and Guidance directed by the Authority pursuant to standard condition B16 (Price control Revenue Reporting and Associated Information) related, unless such information, or any such information provided earlier, was incorrect or misleading in any material respect, as may be specified in the directions).

**ANNEX 2 TO THE NOTICE ISSUED UNDER SECTION 11 OF ELECTRICITY
ACT 1989**

Special Condition H. Amended standard conditions

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

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

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

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

- (a) by the addition of the following text after "and includes" in the definition of "distribution system": "remote transmission assets (owned by the licensee within England and Wales) operated by such distributor and any";
- (b) by the addition of the following text at the end of the definition of "GB transmission system": "but shall not include any remote transmission

assets";

(c) not used;

(d) in the definition of "transmission business":

(aa) not used;

(bb) not used;

(cc) the words "or commercial management" shall be inserted after "maintenance";

(dd) the words "the transmission owner activity," shall be inserted before "the balancing services activity"; and

(ee) not used.

3. Standard condition C1 (Interpretation of Section C) shall be amended by the addition of the following text between the definition of "transmission network services" and the definition of "use of system":

"transmission owner activity"

means

- (i) the activity of the licensee or any affiliate or related undertaking relating to the medium to long term planning, development, construction, maintenance and commercial management of the licensee's transmission system or the GB transmission system which is remunerated under special condition D2 (Restriction on Transmission Network Revenue) , and

(ii) excluded services.

