

NOTICE OF MODIFICATION OF THE SPECIAL CONDITIONS OF NATIONAL GRID ELECTRICITY TRANSMISSION PLC'S ELECTRICITY TRANSMISSION LICENCE UNDER SECTION 11 OF THE ELECTRICITY ACT 1989

1. National Grid Electricity Transmission plc ("NGET") holds an electricity transmission licence ("the licence") treated as granted pursuant to section 6(1)(b) of the Electricity Act 1989 ("the Act").
2. In accordance with section 11(2) and (3) of the Act, the Gas and Electricity Markets Authority ("the Authority") gives notice that it proposes to modify the special conditions of the licence in accordance with the Schedule to this Notice.
3. The purpose of the proposed licence modification is:
 - (a) to define pension costs;
 - (b) to make clear that pension costs are to be excluded from NGET SO internal operating costs incurred; and
 - (c) to clarify that the value for the NGET SO internal regulatory asset base ("the RAB") is in 2004/05 prices.
4. The reasons for this modification are:
 - (a) to ensure that NGET does not recover pension costs twice under its system operator (SO) internal cost incentive as a separate pension cost allowance already exists as part of the internal cost incentive;
 - (b) to ensure that the calculations involving the SO RAB, such as depreciation and return are in 2004/5 prices and can be correctly calculated for each year of the internal cost incentive during the price control period 2007-2012.
5. Subject to the outcome of this statutory consultation, consideration of respondents' views and the consent of NGET being given, it is the intention of the Authority that these proposed licence modification shall have effect on and from 00:00 hours on 1 April 2007.
6. Copies of the proposed licence modification are available (free of charge) from the Ofgem library (0207 901 7003) or on the Ofgem website (www.ofgem.gov.uk)
7. Any representations or objections to the proposed licence modification must be made in writing before **30 April 2007** and sent to:

Haren Thillainathan
Office of Gas and Electricity Markets
9 Millbank
London SW1P 3GE

or by e-mail to haren.thillainathan@ofgem.gov.uk.



Robert Hull
Duly authorised on behalf of the Gas and Electricity Markets Authority
2 April 2007

SCHEDULE

PROPOSED MODIFICATION OF THE SPECIAL CONDITIONS OF NATIONAL GRID ELECTRICITY TRANSMISSION PLC'S ELECTRICITY TRANSMISSION LICENCE UNDER SECTION 11 OF THE ELECTRICITY ACT 1989

1. In Special Condition AA5 (Revenue Restriction Conditions: Definitions) after the definition of "outage change" insert

"pension costs" means the actual cash contributions made to the scheme in respect of both ongoing contributions and deficit payments attributable to the transmission business as well as scheme administration costs and payments made to the Pension Protection Fund (as defined under the Pensions Act 2004)
2. In special condition AA5A, Part 2(ii) (balancing services activity revenue restriction on internal costs), in paragraph 15:
 - (a) in the definition of $CSOOC_t$, after "balancing services activity" insert ", excluding pension costs,";
 - (b) in the definition of "SO regulatory asset base" after "£43.3 million" insert "(in 2004/05 prices)".