

**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 proposed licence modification is intended to implement proposals relating to the NGET balancing services activity incentive scheme from 1 April 2008. In summary:
  - (a) the parameters for the NGET balancing services activity revenue restriction on external costs intended to run from 1 April 2008 to 31 March 2009 are set out in the table below:

	Target	Upside (reward to NGET if costs are below target)		Downside (penalty to NGET if costs are above target)	
	£m	Sharing factor (%)	Cap (£m)	Sharing factor (%)	Floor (£m)
Final Proposal	529-544	25	15	25	-15

- (b) the transmission losses element of the balancing services activity incentive scheme is included on a net basis in line with the proposals. The transmission losses target is set at 6,900,000 MWh with a deadband between 6,600,000 MWh and 7,200,000 MWh, and the transmission losses reference price is set at 62 £/MWh;
  - (c) the sharing factors for the operating costs element of the internal incentive scheme are set out for the year 1 April 2008 to 31 March 2009.
4. 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 the proposed licence modification shall have effect on and from 00:00 hours on 1 April 2008.
5. Information in relation to the proposed licence modification is contained in the following documents:

"National Grid Gas and Electricity System Operator Incentives: Initial Proposals Consultation Report", National Grid, February 2008.

"National Grid Gas and Electricity System Operator Incentives: Initial Proposals Consultation", National Grid, December 2007.

These documents are available from the National Grid website at [www.nationalgrid.com/uk](http://www.nationalgrid.com/uk).

6. The reasons why the Authority proposes to make the licence modification were published by the Authority in the following document:

"National Grid Electricity Transmission and National Grid Gas System Operator Incentives from 1 April 2008: Final proposals and statutory licence consultations", Ofgem, February 2008.

This document is available free of charge from the Ofgem Research and Information Centre, 9 Millbank, London SW1P 3GE or from the Ofgem website at [www.ofgem.gov.uk](http://www.ofgem.gov.uk).

7. Any representations or objections to the proposed licence modification may be made before 26 March 2008 and sent to:

Andrew Wright  
Managing Director, Markets  
Office of Gas and Electricity Markets  
9 Millbank  
London SW1P 3GE

or by e-mail to [GB.Markets@ofgem.gov.uk](mailto:GB.Markets@ofgem.gov.uk).

A handwritten signature in black ink, appearing to read 'Andrew Wright', written over a horizontal line.

**Andrew Wright**  
**Managing Director, Markets**  
**Duly authorised on behalf of the Gas and Electricity Markets Authority**

**27 February 2008**

## 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 AA5A (Balancing Services Activity Revenue Restriction):
  - (a) in paragraph 9:
    - (i) for the formula from which  $IBC_t$  is derived, substitute:
$$IBC_t = CSOBM_t + BSCC_t + TLIC_t + \sum_{jt} (TQEI_j * [NIRP_j]) - RT_t - OM_t$$
    - (ii) for the definition of " $\sum_{jt} ([TL_j - TLT_j] * [TLRP_j])$ ", substitute,  
"TLIC<sub>t</sub> which is the net cost of transmission losses having taken into account the licensee's incentive to minimise the volume of transmission losses, has the value calculated in accordance with paragraph B3 of Part B of Schedule A.";
    - (iii) omit the definition of "TL<sub>j</sub>";
    - (iv) omit the definition of TLT<sub>j</sub>";
    - (v) omit the definition of TLRP<sub>j</sub>".
  - (b) in paragraph 10(b):
    - (i) for "1 April 2007", substitute "1 April 2008";
    - (ii) for "31 March 2008", substitute "31 March 2009";
  - (c) in paragraph 16(b):
    - (i) for "1 April 2007", substitute "1 April 2008";
    - (ii) for "31 March 2008", substitute "31 March 2009".
2. In special condition AA5E (Duration of the Balancing Services Activity Revenue Restriction):
  - (a) in paragraph 4(ii), for "31 March 2008", substitute "31 March 2009";
  - (b) in paragraph 4(B) for "1 April 2007", substitute "1 April 2008".
3. Schedule A (Supplementary Provisions of the Charge Restriction Conditions), Part B (Terms used in the balancing services activity revenue restriction), is amended in accordance with paragraphs 4 and 5 below.
4. For paragraph B1 substitute:

"B1. For the purpose of paragraph 8 of Part 2(i) of special condition AA5A, the terms  $MT_t$ ,  $SF_t$  and  $CB_t$  shall be selected against the appropriate value of  $IBC_t$  (which shall be determined in accordance with paragraph 9 of special condition AA5A):

(a) in respect of the relevant year t commencing on 1 April 2008, from the following table:

$IBC_t$ (£)	$MT_t$ (£)	$SF_t$	$CB_t$ (£)
$469,000,000 <$	0	0	15,000,000
$469,000,000 \leq IBC_t < 529,000,000$	529,000,000	0.25	0
$529,000,000 \leq IBC_t < 544,000,000$	$IBC_t$	0	0
$544,000,000 \leq IBC_t < 604,000,000$	544,000,000	0.25	0
$\geq 604,000,000$	0	0	-15,000,000

(b) in respect of the relevant year t commencing on 1 April 2009 and each relevant year thereafter, the terms  $MT_t$ ,  $SF_t$  and  $CB_t$  shall be set to zero."

5. For paragraph B3, substitute:

"B3. For the purpose of paragraph 9 of Part 2(i) of special condition AA5A, the term  $TLIC_t$  shall be calculated in accordance with the following formula:

$$TLIC_t = 0 \text{ when } -0.3TWh < \sum_{jt} (TL_j - TLT_j) < 0.3TWh$$

$$TLIC_t = \left\{ \sum_{jt} [TL_j - TLT_j] + 0.3TWh \right\} * TLRP \text{ when}$$

$$\sum_{jt} [TL_j] < \left( \sum_{jt} [TLT_j] - 0.3TWh \right)$$

otherwise:

$$TLIC_t = \left\{ \sum_{jt} [TL_j - TLT_j] - 0.3TWh \right\} * TLRP$$

where:

$TL_j$  which is the volume of transmission losses, is given by the sum of BM unit metered volumes (as from time to time defined in the BSC) during the

settlement period  $j$  for all BM units (as from time to time defined in the BSC), being the difference between the quantities of electricity delivered to the GB transmission system and the quantity taken from the GB transmission system during that settlement period;

TLRP <sub>$j$</sub>  which is the transmission losses reference price, shall in respect of each settlement period during relevant year  $t$  have the value £62 per megawatt hour;

TLT <sub>$j$</sub>  which is the target volume of transmission losses, shall in respect of each settlement period during relevant year  $t$  be calculated in accordance with the following formula:

$$TLT_j = \frac{TLT_q}{SP_q}$$

where:

TLT <sub>$q$</sub>  is the target volume of transmission losses in the relevant quarter year, and:

- (i) in quarter 1 has the value in megawatt hours of 1,610,000;
- (ii) in quarter 2 has the value in megawatt hours of 1,500,000;
- (iii) in quarter 3 has the value in megawatt hours of 1,840,000;
- (iv) in quarter 4 has the value in megawatt hours of 1,950,000;

SP <sub>$q$</sub>  is the total number of settlement periods in the relevant quarter year;

“relevant quarter year” means each quarter in formula year  $t$ , where a quarter is a continuous period of three calendar months and:

- (i) “quarter 1” covers the days between 1 April and 30 June inclusive;
- (ii) “quarter 2” covers the days between 1 July and 30 September inclusive;
- (iii) “quarter 3” covers the days between 1 October and 31 December inclusive; and
- (iv) “quarter 4” covers the days between 1 January and 31 March inclusive.”.

6. In paragraph B7, for the tables which set out the way in which  $IUSF_t$  and  $IDSF_t$  are derived, substitute:

	<b>Relevant year</b>				
<b>Variable</b>	2007/08	2008/09	2009/10	2010/11	2011/12
$IUSF_t$	0.2	0.25			

	<b>Relevant year</b>				
<b>Variable</b>	2007/08	2008/09	2009/10	2010/11	2011/12
$IDSF_t$	0.2	0.25			