

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

SECTION 11 AND SECTION 49A(1) OF THE ELECTRICITY ACT 1989

**DIRECTION ISSUED BY THE GAS AND ELECTRICITY MARKETS AUTHORITY
UNDER PARAGRAPH 24 OF SPECIAL LICENCE CONDITION J5 (RESTRICTION OF
TRANSMISSION CHARGES: TOTAL INCENTIVE REVENUE ADJUSTMENT)**

**MODIFICATION OF SPECIAL CONDITION J5 OF THE ELECTRICITY
TRANSMISSION LICENCE OF SP TRANSMISSION LIMITED PURSUANT TO
SECTION 11 OF THE ELECTRICITY ACT 1989; AND**

**NOTICE OF THE REASONS UNDER SECTION 49A(1) OF THE ELECTRICITY Act
1989 FOR THE DECISION TO ISSUE THE DIRECTION AND TO MODIFY THE
LICENCE**

Whereas:

1. SP Transmission Limited ("the Licensee") is the holder of an electricity transmission licence ("the Licence") granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 ("the Act").
2. On 25 February 2008, the Gas and Electricity Markets Authority ("the Authority") gave notice ("the Notice") in accordance with section 11(2) and 11(3) of the Act that it proposed to modify Special Condition J5 (Restriction of transmission charges: Total incentive revenue adjustment) in the manner set out in the Schedule to this Document.
4. The reasons for modifying the Licence in the manner prescribed in the Schedule to this Document are set out in Appendix 2 of the Notice. In summary, the Authority is directing that paragraphs 26 to 31 of Special Condition J5 shall take effect from 1 April 2008. The Authority is also modifying paragraph 26 of Special Condition J5 to insert the values for the TLK_t parameter of the SF_6 incentive to apply from 1 April 2008. The SF_6 incentive scheme was in principle accepted by the transmission licensees as part of the Transmission Price Control Review 2007-12; the associated final proposals document can be found at the following link: [Transmission Price Control Review: Final Proposals](#).
5. The Authority published the Notice in the manner it considered appropriate and required any objections or representations to the modifications to be made in writing on or before 24 March 2008.
6. Prior to the close of the consultation period in respect of the Notice, the Authority did not receive any responses.
7. The Authority gave notice to the Secretary of State of its intention to make the modification and did not receive from him a direction not to make the modification.

8. On 20 March 2008, the Licensee gave its consent to the proposed modification of the special conditions of the Licence in the manner set out in the Schedule to this Document.

NOW:

pursuant to paragraph 24 of Special Condition J5, the Authority HEREBY DIRECTS that paragraphs 26 to 31 of Special Condition shall take effect on and from 1 April 2008; and

in accordance with the powers contained in section 11 (1) of the Act, the Authority HEREBY MODIFIES Special Condition J5 of the Licence in the manner specified in the schedule to this Document WITH EFFECT on and from 1 April 2008.

This Document also constitutes under section 49A(1)(b) and (c) of the Act notice of the reasons for the decision to issue the Direction and to modify the Licence.

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

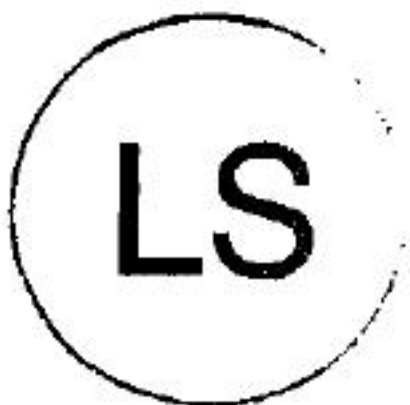


Robert Hull

Director – Transmission, Networks

Authorised on behalf of the Authority

27 March 2008



SCHEDULE

MODIFICATION OF SPECIAL CONDITION J5 OF THE ELECTRICITY TRANSMISSION LICENCE OF SP TRANSMISSION LIMITED PURSUANT TO SECTION 11(1) OF THE ELECTRICITY ACT 1989

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

Part 4 - adjustment to restriction of transmission charges due to SF₆ incentive

19. The purpose of this condition is to provide for adjustments to allowed revenue to reflect performance of the licensee in relation to its Sulphur Hexafluoride (SF₆) incentive scheme.
20. The licensee shall within 3 months of receiving a notice from the Authority submit to the Authority a leakage rate of SF₆ methodology statement consistent with best industry practice, setting out the methodology by which the licensee will determine the leakage rate of SF₆ gas, required for the calculation of the actual leakage rate of SF₆ gas, ALK_t, and the target leakage rate of SF₆ gas, TLK_t.
21. Unless the Authority directs otherwise within 2 months of the date on which the licensee submits the statement to the Authority in accordance with paragraph 20, the licensee shall take all reasonable steps to apply the methodology set out in that statement.
22. Before revising the methodology referred to in paragraph 20 the licensee shall submit to the Authority a copy of the proposed revisions to the methodology.
23. Unless the Authority directs otherwise within 1 month of the Authority receiving any proposed revisions to the methodology under paragraph 22, the licensee shall take all reasonable steps to apply the methodology revised in accordance with such proposed revisions.

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

$$SFI_t = 0.002 \times PR_t$$

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

Where:

- PR_t means the licensee's base transmission revenue, as defined in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services)
- ALK_t means the actual leakage rate of SF_6 gas in relevant year t as a percentage of inventory of SF_6 gas as reported by the licensee pursuant to the revenue reporting Regulatory Instructions and Guidance issued in accordance with standard condition B16 (Price Control Revenue Reporting and Associated Information)
- TLK_t means the target leakage rate of SF_6 gas in relevant year t as a percentage of inventory of SF_6 and shall take the values in the table below:

Relevant year t	2007/08	2008/09	2009/10	2010/11	2011/12
TLK _t	N/A	2.00%	1.83%	1.67%	1.50%

27. 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 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.

28. For the purpose of paragraph 27, any adjustment directed by the Authority shall be based on the extent to which the Authority is satisfied that the licensee had taken reasonable steps to prevent the event from resulting in the leakage of SF₆ and to mitigate its effect (both in anticipation and subsequently).

29. A direction under paragraph 27 shall not have effect unless, before it is made, the Authority has given notice to the licensee:

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

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

30. For the purpose of paragraph 27, an “exceptional event” means an event or circumstance that is beyond the reasonable control of the licensee and which results in or causes the leakage of 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.
31. Without prejudice to paragraph 30, an “exceptional event” may include circumstances where a significant danger to the public gives rise to the licensee prioritising health and safety over the reduction of leakage of SF₆ gas at a particular site.