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 2009. In summary:

    (a) the parameters for the NGET balancing services activity revenue restriction on external costs intended to run from 1 April 2009 to 31 March 2010 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	600-630	25	15	15	-15

    (b) the transmission losses element of the balancing services activity incentive scheme is included in line with the proposals. The transmission losses target is set at 6,000,000 MWh with a deadband between 5,800,000 MWh and 6,200,000 MWh, and the transmission losses reference price is set at 55 £/MWh;

    (c) a mechanism has been included that enables the Authority to direct that a lower target be implemented if a material change occurs in the availability to the licensee of ancillary services; and

    (d) the sharing factors for the operating costs element of the internal incentive scheme are set out for the year 1 April 2009 to 31 March 2010.

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 2009.

5. Information in relation to the proposed licence modification is contained in the following documents:

    "National Grid Electricity System Operator Incentives: Final Proposals Report", National Grid, February 2009.

    "National Grid Electricity System Operator Incentives: Initial Proposals Consultation", National Grid, November 2008.

These documents are available from the National Grid website at 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:
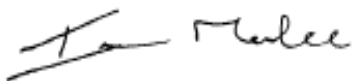
"National Grid Electricity Transmission and National Grid Gas System Operator Incentives from 1 April 2009: Final Proposals Consultation", Ofgem, February 2009.

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.

7.   Any representations or objections to the proposed licence modification may be made before 27 March 2009 and sent to:

Ian Marlee
Director, Trading Arrangements
Office of Gas and Electricity Markets
9 Millbank
London SW1P 3GE

or by e-mail to gb.markets@ofgem.gov.uk.

Ian Marlee
Director, Trading Arrangements
Duly authorised on behalf of the Gas and Electricity Markets Authority

27 February 2009

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 (Part 2 (i) Balancing Services Activity Revenue Restriction on external costs):

   (a) in paragraph 9:

   (i) for the formula from which IBC_t is derived, substitute:

   $$IBC_t = CSOBM_t + BSCC_t + TLIC_t + \Sigma_{jt} NIA_j - RT_t - OM_t$$

   (ii) omit the definition of $\Sigma_{jt} (TQEI_j * [NIRP_j])$;

   (iii) for the definition of $NIRP_j$, substitute,

      "NIAj which is the net imbalance adjustment for each settlement period j, and has the values calculated in paragraph B4 in Part B Schedule A.";

   (b) in paragraph 10(b):

   (i) for "1 April 2008", substitute "1 April 2009";

   (ii) for "31 March 2009", substitute "31 March 2010"

   (c) In paragraph 16(b):

   (i)   for " 1 April 2008", substitute "1 April 2009";

   (ii)   for "31 March 2009", substitute "31 March 2010".

2. In special condition AA5E (Duration of the Balancing Services Activity Revenue Restriction):

   (a) in paragraph (4)(ii) for "31 March 2009", substitute "31 March 2010"

(b) in paragraph 4(B) for "1 April 2008", substitute "1 April 2009".

3. Schedule A *(Supplementary Provisions of the Charge Restriction Conditions),* PART B
    (Terms in the balancing services activity revenue restriction), is amended in accordance
    with paragraphs 4, 5, 6 and 7 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 2009, from the
        following table:

IBC_t (£)	MT_t (£)	SF_t	CB_t (£)
IBC<540,000,000	0	0	15,000,000
540,000,000<= IBC_t <600,000,000	600,000,000	0.25	0
600,000,000 <=IBC_t <630,000,000	IBC_t	0	0
630,000,000<= IBC_t <730,000,000	630,000,000	0.15	0
IBC>= 730,000,000	0	0	-15,000,000

    b) In the relevant year t commencing on 1 April 2009 MT_t and the
        parameters shown in the IBC_t column shall take the value specified in the
        table above unless the Authority directs that lower values shall apply.
        Such lower values shall be directed by the Authority following receipt by
        it from the licensee of such information as the Authority may require as
        to the occurrence of a material change in the availability to the licensee of
        ancillary services from that assumed by the licensee when developing its
        forecast for IBC costs for the relevant year t commencing on 1 April
        2009. For the purposes of any direction to be given by the Authority
        under this paragraph, any relevant material change in the availability of
        ancillary services to the licensee and the associated costs of such material

change shall be agreed between the Authority and the licensee prior to the commencement of the relevant year t commencing on 1 April 2009.

  c) in respect of the relevant year t commencing on 1 April 2010 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:

$$TLIC_t = 0 \text{ when } -0.2TWh < \sum_{jt}(TL_j - TLT_j) < 0.2TWh$$

$$TLIC_t = \left\{ \sum_{jt}\left[TL_j - TLT_j\right] + 0.2TWh \right\} * TLRP \text{ when}$$

$$\sum_{jt}[TL_j] < \left(\sum_{jt}[TLT_j] - 0.2TWh \right)$$

otherwise:

$$TLIC_t = \left\{ \sum_{jt}\left[TL_j - TLT_j\right] - 0.2TWh \right\} * TLRP$$

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;

$TLRP_j$ which is the transmission losses reference price, shall in respect of each settlement period during relevant year t have the value £55 per megawatt hour;

TLT_j 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:

$$TLT_j = \frac{TLT_t}{SP_t}$$

where:

TLT$_t$ is the target volume of transmission losses in relevant year t, shall
have the value in megawatt hours of 6,000,000:

SP$_t$ is the total number of settlement periods in the relevant year t."

6. For the first paragraph in B4 substitute:

"B4. For the purpose of paragraph 9 of Part 2(i) of special condition AA5A, the term NIA$_j$, which is the net imbalance adjustment for each settlement period j, during relevant year t, shall be derived as follows:"

7. For paragraph B4(b), substitute:

The term NIA$_j$ shall be derived as follows:

where TQEI$_j$ <0

$$NIA_j = SPNIRP_j * \left(MLM1 * TQEI_j - VO \right)$$

where TQEI$_j$ >0

$$NIA_j = SPNIRP_j * \left(MLM2 * TQEI_j - VO \right)$$

where TQEI$_j$ =0

$$NIA_j = SPNIRP_j * (-VO)$$

Where TQEI$_j$ is the total net imbalance volume as defined in the BSC in force immediately prior to 1 April 2001; and

where in respect of the relevant year t, the terms MLM1, MLM2 and VO shall have the value ascribed to those terms in the following table:

MLM1	1.25
MLM2	0.9
VO	450

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

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

	Relevant year				
Variable	2007/08	2008/09	2009/10	2010/11	2011/12
$IDSF_t$	0.2	0.25	0.15		