

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

NOTICE OF REASONS FOR THE DECISION TO MODIFY THE SPECIAL CONDITIONS OF NATIONAL GRID ELECTRICITY TRANSMISSION PLC'S ELECTRICITY TRANSMISSION LICENCE UNDER SECTION 49A OF THE ELECTRICITY ACT 1989

WHEREAS:

1. National Grid Electricity Transmission plc (the "licensee") 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"):
 - (i) gave notice (the "Notice") on 27 February 2009 that it proposed to modify the special conditions of the licence in accordance with the Schedule to the Notice;
 - (ii) published the Notice in the manner it considered appropriate; and
 - (iii) served a copy of the Notice on the licensee.
3. It has come to the attention of the Authority that the Notice contained a minor drafting error. Paragraph 4 of the Schedule to the Notice proposes to insert a new paragraph B1 in Schedule A in the electricity transmission licence and paragraph B1 a) inserts a new table. The error is in the first and fifth rows of column 1 of the table where the subscript τ is missing from the term "IBC". In each case this should read as "IBC τ ".
4. The modification takes account of the minor error noted in paragraph 3 above.
5. The Authority received five representations in relation to the proposed licence modification before the relevant time specified in the Notice, none of which were marked as confidential. No responses were withdrawn.
6. The Authority has carefully considered the representations made in relation to the proposed licence modification and considers that no further amendment is necessary to the Notice in relation to the responses received.

All non-confidential representations made in relation to the proposed licence modification are available free of charge from the Ofgem Research and Information Centre, 9 Millbank, London SW19 3GE or from the Ofgem website at www.ofgem.gov.uk.
7. The Authority sent a copy of the Notice to the Secretary of State. The Authority did not receive a direction from the Secretary of State not to make the proposed licence modification before the relevant time specified in the Notice.

8. On 26 March 2009 the licensee gave its written consent to the licence modification proposed in the Schedule to the Notice, subject to an amendment being made to the Schedule to rectify the minor error noted in paragraph 3 above.

9. Information in relation to the 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.

10. 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.

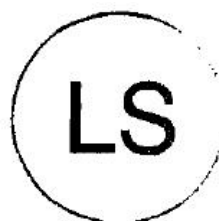
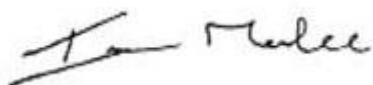
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THEREFORE:

In accordance with section 11 of the Act, and with the consent of the licensee, the Authority hereby modifies the licence in accordance with the Schedule to this Modification with effect on and from 00:00 hours on 1 April 2009.

This document constitutes a notice of reasons for the decision to modify the special conditions of the licence under section 49A of the Act.

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



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

31 March 2009

SCHEDULE

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:

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

- (ii) omit the definition of $\sum_{jt} (QEI_j * NIRP_{j,t})$;

(iii) for the definition of $NIRP_{j,t}$, substitute,

"NIA_j 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 (£)
$IBC_t < 540,000,000$	0	0	15,000,000
$540,000,000 \leq IBC_t < 600,000,000$	600,000,000	0.25	0
$600,000,000 \leq IBC_t < 630,000,000$	IBC_t	0	0
$630,000,000 \leq IBC_t < 730,000,000$	630,000,000	0.15	0
$IBC_t \geq 730,000,000$	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:

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

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

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

otherwise:

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

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

$$NIA_j = SPNIRP_j * (MLM1 * TQEI_j - VO)$$

where TQEI_j > 0

$$NIA_j = SPNIRP_j * (MLM2 * TQEI_j - VO)$$

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		