

To:

The Company Secretary
National Grid Electricity Transmission plc
Company number: 02366977
1-3 Strand
London
WC2N 5EH

NOTICE UNDER SECTION 11 OF THE ELECTRICITY ACT 1989

The Gas and Electricity Markets Authority (the "Authority") hereby gives notice pursuant to section 11 of the Electricity Act 1989 ("the Act") as follows:

1. The Authority proposes to modify the conditions of the transmission licence ("the licence") treated as granted to National Grid Electricity Transmission plc ("the licensee") under section 6(1)(b) of the Act by altering Special Condition AA5A (Services Activity Revenue Restriction) (the "Condition") as set out in bold text in the Schedule to this notice.

2. The proposed modifications are to Part 2 (ii) of the Condition and will enable the licensee to recover the economic and efficient internal costs that it has incurred, or is expected to incur, in relation to:

- its role in developing the offshore electricity transmission regulatory regime up to 31 March 2009; and
- its role as the System Operator (SO), between 1 April 2009 and 31 March 2012, following the decision taken by the Secretary of State to extend the role of the licensee to offshore waters,

which the Authority did not previously allow for when setting out the SO Internal Incentive restriction in the Condition, under "Part 2 (ii): Balancing services activity revenue restriction on internal costs".

3. The amount of non-incentivised costs relating to offshore electricity transmission ($OFIC_t$), which is proposed to be added to the algebraic formula expressed in paragraph 13 of the Condition, comprises two elements:

- The efficient costs incurred by the licensee between 2 August 2006 and 31 March 2009 in preparing for the introduction of the offshore electricity transmission regulatory regime, which has been agreed by the Authority ($OFDC_t$); and
- The allowed income adjustment for the period 1 April 2009 to 31 March 2012 to remunerate the internal costs efficiently incurred by the licensee as a result of the extension of the licensee's balancing services obligations, services and activities to offshore waters ($OFOC_t$),

which shall be determined in accordance with the proposed new paragraph 15D (Determination of non-incentivised SO costs relating to offshore electricity transmission), 15E (Notice of proposed offshore income adjustment), 15F (The Authority's determination), 15G (Authority's determination of $OFOC_t$, supplementary provision) and 15G (Limit of $OFOC_t$).

4. The reasons why the Authority proposes to make these licence modifications and their effect are set out in an accompanying decision letter - Treatment of NGET's Costs as Offshore SO Designate and Further Incremental NETSO Costs Under the SO Internal Incentive - published on behalf of the Authority in conjunction with this notice (both of which are available free of charge from the Ofgem library (telephone: 020 7901 7003) or on the Ofgem website (www.ofgem.gov.uk)).

5. In summary, the reason is that the licensee's new obligations and responsibilities require the licensee to perform a key co-ordination and support role for the competitive tenders to identify persons to grant offshore transmission licences, and for developing an efficient system of electricity transmission.
6. The licensee will incur costs in conducting these activities, which have not been allowed for under the SO revenue restriction currently set out in paragraph 13 of the Condition; this modification would allow the licensee to recover such efficiently incurred costs.
7. The effect of the proposed modifications is to add a new revenue restriction algebraic element to paragraph 13 of the Condition and add new paragraphs 15E to 15H in to the Condition to enable the licensee to recover historic costs that the licensee incurred between 2 August 2006 and 31 March 2009 in its role as designate offshore SO; and ongoing costs (subject to determination by the Authority) during regulatory years 2009-10, 2010-11 and 2011-12 that the licensee incurs as a result of the extension of the performance of its SO obligations offshore.
8. Any representations or objections to the proposed licence modifications must be made in writing on or before 14 August 2009 and sent to:

Sam Cope
Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE
or by email to sam.cope@ofgem.gov.uk

9. All responses will be published on the Ofgem website and retained in the Ofgem Research and Information Centre, and if a respondent does not wish its response or parts of its response to be published, it should clearly mark the response or the relevant parts 'not for publication'.



Robert Hull
Director, Regulatory Services
Authorised on behalf of the Authority
15 July 2009

SCHEDULE

Special Condition AA5A: Balancing Services Activity Revenue Restriction

Part 1

1. Not used.
2. Not used.
3. Not used.
4. Not used.

Part 2 (i): Balancing services activity revenue restriction on external costs

5. The licensee shall use its best endeavours to ensure that in the relevant year t the revenue derived from and associated with procuring and using balancing services (being the external costs of the balancing services activity) shall not exceed an amount calculated in accordance with the following formula:

$$BXext_t = CSOBM_t + BSCC_t + ET_t - OM_t + IncPayExt_t$$

where:

- $BXext_t$ represents the maximum allowed revenue derived in relevant year t from and associated with procuring and using balancing services;
- $CSOBM_t$ which represents the cost to the licensee of bids and offers in the balancing mechanism accepted by the licensee in relevant year t less the total non-delivery charge for that period, is the sum across relevant year t of the values of $CSOBM_j$ (being the daily system operator BM cashflow as defined in Table X-2 of Section X of the BSC in force immediately prior to 1 April 2001);
- $BSCC_t$ means the costs to the licensee of contracts for the availability or use of balancing services during the relevant year t , excluding costs within $CSOBM_t$ but including charges made by the licensee for the provision of balancing services to itself in the relevant year t ;

- ET_t means the amount of any adjustment to be made during the relevant year t in respect of a previous relevant year as provided in paragraph 6;
- OM_t means an amount representing the revenue from the provision of balancing services to others during relevant year t , calculated in accordance with paragraph 7;
- $IncPayExt_t$ means an incentive payment for relevant year t calculated in accordance with paragraph 8.

6. Balancing services activity adjustments

For the purposes of paragraph 5, the term ET_t which relates to prior year adjustments in respect of the relevant year t shall mean:

- (a) the costs, whether positive or negative, to the licensee of
- (i) bids and offers in the balancing mechanism accepted by the licensee in any relevant year before relevant year t less the total non-delivery charge for the period; and
 - (ii) contracts for the availability or use of balancing services during any relevant year before relevant year t , excluding costs within $CSOBM_t$ for any relevant year, but including charges made by the licensee for the provision of balancing services to itself in any relevant year before relevant year t
- in each case after deducting such costs to the extent that they have been taken into account in any relevant year in computing the terms $CSOBM_t$ or $BSCC_t$; and
- (b) any amount within the term ET_t as defined in this licence in the form it was in on 1 April 2000 whether as then defined or as now defined.

7. Provision of balancing services to others

For the purpose of paragraph 5, OM_t (the amount representing the revenue from the provision of balancing services to others) shall be the sum of:

- (a) the total amount (exclusive of interest and value added tax attributable thereto) recovered by the licensee in respect of the relevant year t under any agreements entered into between an electricity supplier (being the holder of a supply licence granted or treated as granted under Section 6(1)(d) of the Act) or network operator (as defined in the grid

code) and the licensee pursuant to which the costs of operation or non-operation of generation sets which are required to support the stability of a user system (as defined in the grid code) are charged to such electricity supplier (as defined above) or network operator (as defined in the grid code); and

- (b) the total costs (exclusive of interest and value added tax attributable thereto) incurred by the licensee in respect of the relevant year t which arise by reason of the operation or non-operation of generation sets and which result directly or indirectly from works associated with the GB transmission system or works thereon being carried out, rescheduled or cancelled by reason of any agreement with, or request of, any third party other than an electricity supplier (as defined in paragraph 7 (a) of this special condition) or network operator (as defined in the grid code).

8. Determination of incentive payments on external costs

For the purposes of paragraph 5, the term $IncPayExt_t$ shall be derived from the following formula:

$$IncPayExt_t = [SF_t(MT_t - IBC_t) + CB_t]$$

where:

SF_t which is a balancing services activity sharing factor in respect of relevant year t , has the value specified either against the value of IBC_t for the relevant year t in the column headed SF_t in the table in paragraph B1 (a) of Part B of Schedule A or in paragraph B1 (b) of Part B of Schedule A.

MT_t which is a target for balancing services activity incentivised external costs in respect of relevant year t , has the value specified either against the value IBC_t for relevant year t in the column headed MT_t in the table in paragraph B1 (a) of Part B of Schedule A or in paragraph B1 (b) of Part B of Schedule A.

IBC_t which is the cost of balancing services on which the licensee is incentivised during the relevant year t , is calculated in accordance with the formula given in paragraph 9.

CB_t which is a balancing services sharing factor offset in respect of the relevant year t , has the value either specified against the value of

IBC_t for the relevant year t in the column headed CB_t in the table in paragraph B1 (a) of Part B of Schedule A or in paragraph B1 (b) of that Part.

9. For the purposes of paragraph 8, the term IBC_t in respect of relevant year t shall be calculated in accordance with the following formula:

$$IBC_t = CSOBM_t + BSCC_t + TLIC_t + \sum_j (TQEI_j * [NIRP_j]) - RT_t - OM_t$$

where:

j

in all cases shall mean a settlement period (being a half an hour) as defined in the BSC.

TLIC_t

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.

$\sum_j (TQEI_j * [NIRP_j])$

the total net imbalance volume (TQEI_j) as defined in the BSC in force immediately prior to 1 April 2001 multiplied by the net imbalance volume reference price (NIRP_j) for each settlement period, summed across all settlement periods in the relevant year t.

NIRP_j

which is the net imbalance volume reference price for each settlement period j has the values set out in paragraph B4 in Part B Schedule A.

RT_t

means the amount of any allowed income adjustments given by paragraph 12 (b) in respect of relevant year t.

10. Income adjusting events under the balancing services activity revenue restriction on external costs

(a) An income adjusting event may arise from any of the following:

(i) an event or circumstance constituting force majeure under the BSC;

- (ii) an event or circumstance constituting force majeure under the CUSC;
- (iii) a security period; and
- (iv) an event or circumstance other than listed above which is, in the opinion of the Authority, an income adjusting event and is approved by it as such in accordance with paragraph 12(a) of this special licence condition,

where the event or circumstance has, for relevant year t, increased or decreased the value of IBC_t by more than £2,000,000 (the “threshold amount”). This threshold amount does not apply in respect of sub-paragraph 10(a)(iii) above.

- (b) For the purpose of relevant year t commencing on 1 April 2008 and ending on 31 March 2009, events or circumstances arising directly from the implementation or otherwise of the following proposed modifications and amendments (both the original and any alternative unless otherwise specified) listed in tables 1 and 2 below shall not qualify as an income adjusting event for the purpose of paragraph 10(a) above:

Table 1: Proposed modifications to the BSC

BSC Modification Proposal	BSC Modification Title (as entitled by the proposer of the modification)
None applicable	

Table 2: Proposed amendments to the CUSC

CUSC Amendment Proposal	CUSC Amendment Title (as entitled by the proposer of the amendment)
None applicable	

11. Notice of proposed income adjusting event

- (a) Where the licensee considers, and can provide supporting evidence that, in respect of relevant year t, there have been costs and/or expenses that have been incurred or saved by an income adjusting event, then the licensee shall give notice of this event to the Authority.
- (b) Where any other Party (as defined in the BSC) considers, and can provide supporting evidence that, in respect of relevant year t, there have been costs and/or expenses that

have been incurred or saved by an income adjusting event, then that Party may give notice of this event to the Authority.

- (c) A notice provided to the Authority under paragraphs 11(a) and 11(b) shall, in the case of the licensee, and should, in so far as is practicable in the case of any other Party, give particulars of:
 - (i) the event to which the notice relates and the reason(s) why the person giving the notice considers this event to be an income adjusting event;
 - (ii) the amount of any change in costs and/or expenses that can be demonstrated by the person giving the notice to have been caused or saved by the event and how the amount of these costs and/or expenses has been calculated;
 - (iii) the amount of any allowed income adjustment proposed as a consequence of that event and how this allowed income adjustment has been calculated; and
 - (iv) any other analysis or information which the person submitting the notice considers to be sufficient to enable the Authority and the relevant parties to fully assess the event to which the notice relates.
- (d) If the Authority considers that the analysis or information provided in sub-paragraphs 11(c)(i) to 11(c)(iv) above is insufficient to enable both the Authority and the relevant parties to assess whether an income adjusting event has occurred and/or the amount of any allowed income adjustment that should be approved, the Authority can request that the supporting evidence be supplemented with additional information that it considers appropriate.
- (e) A notice of an income adjusting event shall be given as soon as is reasonably practicable after the occurrence of the income adjusting event, and, in any event, not later than three months after the end of the relevant year in which it occurs.
- (f) The Authority will make public, excluding any confidential information, any notice of an income adjusting event following its receipt.
- (g) Any notice submitted to the Authority under either paragraphs 11(a) or 11(b) above should clearly identify whether any of the information contained in the notice is of a confidential nature. The Authority shall make the final determination as to confidentiality having regard to:

- (i) the need to exclude from disclosure, so far as is reasonably practicable, information whose disclosure the Authority considers would or might seriously prejudicially affect the interests of a person to which it relates; and
- (ii) the extent to which the disclosure of the information mentioned in sub-paragraph 11(g)(i) is necessary for the purposes of enabling the relevant parties to fully assess the event to which the notice relates.

12. The Authority's determination

- (a) Following consultation with relevant parties, including the licensee, BSC Parties and CUSC parties, the Authority shall determine:
 - (i) whether any or all of the costs and/or expenses given in a notice pursuant to paragraphs 11(a) or 11(b) were caused or saved by an income adjusting event;
 - (ii) whether the event or circumstance has increased or decreased the value of IBC_t by more than the threshold amount, save in the case of sub-paragraph 10(a)(iii) where the threshold amount shall not apply; and
 - (iii) if so, whether the amount of the proposed income adjustment ensures that the financial position and performance of the licensee are, insofar as is reasonably practicable, the same as if that income adjusting event had not taken place, and if not, what allowed income adjustment would secure that effect.
- (b) In relation to the relevant year t , the allowed income adjustment (RT_t) shall be:
 - (i) the value determined by the Authority under paragraph 12(a) above; or
 - (ii) if the Authority has not made a determination under paragraph 12(a) above within three months of the date on which notice of an income adjusting event was provided to the Authority, the amount of the allowed income adjustment proposed as a consequence of the event in the notice given to the Authority under sub-paragraph 11(c)(iii); or
 - (iii) in all other cases zero, including situations where the Authority has not made a determination under paragraph 12(a) above within three months of the date on which notice of an income adjusting event was provided to the Authority and the Authority has, before the end of that three month period, informed the relevant parties that the Authority considers that the analysis or information provided in

accordance with paragraphs 11(c) and/or 11(d) is insufficient to enable the Authority and relevant parties to assess whether an income adjusting event has occurred and/or the amount of any allowed income adjustment.

- (c) The Authority's decision in relation to any notice given under paragraphs 11(a) or 11(b) shall be in writing, shall be copied to the licensee and shall be in the public domain.
- (d) The Authority may revoke an approval of an income adjusting event and allowed income adjustment with the consent of the licensee, following consultation with the licensee and relevant parties. Revocation of any income adjusting event and allowed income adjustment shall be in writing, shall be copied to the licensee and shall be in the public domain.

Part 2 (ii): Balancing services activity revenue restriction on internal costs

- 13. The licensee shall use its best endeavours to ensure that in the relevant year t the revenue derived by the licensee from the balancing services activity associated with internal costs (being all balancing services activity revenue in relevant year t with the exception of any revenue in relevant year t accounted for under special condition AA5A Part 2(i) paragraph 5) shall not exceed an amount calculated:

$$BX\ int_t = CSOC_t + IncPayInt_t + NC_t + \mathbf{OFIC}_t + IAT_t + IONT_t$$

where:

$BXint_t$ means the balancing services activity revenue associated with internal costs in relevant year t other than any revenue in relevant year t accounted for under paragraph 5 of part 2(i) of this special condition and is derived from the following components:

$CSOC_t$ which is the aggregate of all incentivised internal costs associated with the balancing services activity in respect of relevant year t, calculated in accordance with paragraph 15;

$IncPayInt_t$ which means the incentive payment associated with the internal operating costs of undertaking the balancing services activity in respect of relevant year t, calculated in accordance with paragraph 15B;

NC_t which means non-incentivised costs, calculated in accordance with paragraph 15C;

$OFIC_t$ **which means, in respect of the relevant year t, the amount of any non-incentivised costs relating to offshore electricity transmission calculated in accordance with paragraph 15D;**

IAT_t which means, in respect of each relevant year t, the amount of any allowed income adjustment given by paragraph 18(b);

$IONT_t$ which means, in respect of each relevant year t, the amount of any allowed income adjustments given by paragraph 24(b).

14. Not used.

15. Determination of incentivised internal costs

For the purposes of paragraph 13, the term $CSOC_t$ shall be derived from the following formula:

$$CSOC_t = CSOOC_t + CSOCEC_t$$

where:

$CSOOC_t$ means the aggregate of the incentivised internal operating costs associated with the balancing services activity, excluding pension costs, in respect of relevant year t;

$CSOCEC_t$ means the aggregate of the incentivised internal capital expenditure associated with the balancing services activity in respect of relevant year t and shall be derived from the following formula:

$$CSOCEC_t = CSOD_t + CSOR_t$$

where:

$CSOD_t$ means the depreciation on the SO regulatory asset base (as defined below) in respect of relevant year t and is calculated on a straight-line basis using an asset life of 7 years;

CSOR_t means the return on the SO regulatory asset base in respect of relevant year t and is calculated as 5.05% of the SO regulatory asset base;

“SO regulatory asset base” means the aggregate of assets associated with the balancing services activity excluding, for the avoidance of doubt, Plant (which has the meaning given to it in the CUSC) expenditure and has the value £43.3 million (in 2004/05 prices) at 1 April 2007. Allowed internal capital expenditure (ASOCE_t) shall be added to the SO regulatory asset base in respect of any relevant year t and is determined in accordance with paragraph 15A.

15A. Determination of Allowed Internal Capital Expenditure (ASOCE_t)

ASOCE_t means the allowed internal capital expenditure that shall be added to the SO regulatory asset base in respect of any relevant year t and is derived in the following manner:

$$ASOCE_t = \left(\left[1 + \left(\frac{IRPI_t}{100} \right) \right] \times CSOCET_t \right) - \left(\left(\left[1 + \left(\frac{IRPI_t}{100} \right) \right] \times CSOCET_t \right) - ACE_t \right) \times 0.75$$

where:

CSOCET_t means the internal capital expenditure target in respect of relevant year t as set out in the following table:

Variable	Relevant year				
	2007/08	2008/09	2009/10	2010/11	2011/12
CSOCET _t , £ million 2004/05 prices	11.1	7.5	8.3	7.4	6.7

ACE_t means the internal capital expenditure associated with the balancing services activity excluding Plant (which has the meaning given to it in the CUSC) in respect of relevant year t;

IRPI_t in respect of relevant year t, means the percentage change (whether of a positive or a negative value) between (a) the arithmetic average of the retail price index published or determined with respect to each of the six months from May to October (both inclusive) in relevant year t-1 and (b) the value 181.80 (being the value for t-1 in 2004/05).

15B. Determination of incentive payments on internal operating costs

For the purposes of paragraph 13, the term IncPayInt_t shall be derived from the following formula:

$$\text{IncPayInt}_t = \left(\text{ISF}_t \left(\left[1 + \left(\frac{\text{IRPI}}{100} \right) \right] \text{IMOT}_t \right) - \text{CSOOC}_t \right) + \left[\sum_M (1 - \text{CSE}_{Mt}) (\text{CP}_{Mt} - \text{OS}_{Mt}) \right]$$

where:

ISF_t is the balancing services activity sharing factor in respect of relevant year t, and is calculated in accordance with the formula set out below:

$$\text{if } \text{IMOT}_t > \text{CSOOC}_t, \text{ then } \text{ISF}_t = \text{IUSF}_t \text{ otherwise } \text{ISF}_t = \text{IDSF}_t$$

where:

IUSF_t is the balancing services activity upside sharing factor in respect of relevant year t and has the value specified in paragraph B7 of Part B of Schedule A;

IDSF_t is the balancing services activity downside sharing factor in respect of relevant year t and has the value specified in paragraph B7 of Part B of Schedule A;

IMOT_t is the target for the incentivised internal operating costs associated with the balancing services activity in respect of relevant year t as specified in the following table:

	Relevant year
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Variable	2007/08	2008/09	2009/10	2010/11	2011/12
IMOT _t £ million 2004/05 prices	47.9	47.0	45.9	46.9	46.5

CSF_{Mt} is a Contingency Provisions (as defined in the BSC from time to time) sharing factor in respect of each month M of relevant year t and has the value determined in accordance with paragraph B5 of Part B of Schedule A;

CP_{Mt} is the sum of the Ad-Hoc Trading Charges (as defined in the BSC from time to time) payable by the licensee in respect of the Contingency Provisions in month M of relevant year t;

OS_{Mt} is the Contingency Provisions offset in respect of each month M of relevant year t and has the value determined in accordance with paragraph B6 of Part B of Schedule A;

\sum_M means the summation over all months M in relevant year t;

CSOOC_t has the meaning given in paragraph 15;

IRPI_t has the meaning given in paragraph 15A.

15C. Determination of non-incentivised costs

For the purposes of paragraph 13, NC_t shall be derived from the following formula:

$$NC_t = (NSOC_t + BI_t + T_t + P_t + ON_t) \times \left(1 + \frac{IRPI_t}{100} \right)$$

where:

NSOC_t has the value set against relevant year t as set out in the following table:

	Relevant year

Variable	2007/08	2008/09	2009/10	2010/11	2011/12
NSOC _t (£ million 2004/05 prices)	17.8	2.1	1.7	1.6	1.6

BI_t

represents the costs incurred by the licensee for preparing for the introduction of BETTA and has the value for the relevant year t set out in the following table:

	Relevant year				
Variable	2007/08	2008/09	2009/10	2010/11	2011/12
BI _t (£, million 2004/05 prices)	3.6	3.4	3.3	3.2	3.0

T_t

means the tax allowance in respect of relevant year t as set out in the following table:

	Relevant year				
Variable	2007 /08	2008 /09	2009 /10	2010 /11	2011 /12
T _t (£,million 2004/05 prices)	8.4	3.9	3.2	2.5	2.4

P_t

means the pension cost allowance in respect of relevant year t as set out in the following table:

	Relevant year				
Variable	2007/08	2008/09	2009/10	2010/11	2011/12
P _t (£,million 2004/05 prices)	15.6	15.4	15.1	15.0	15.0

ON_t unless determined otherwise by the Authority, has the value £1,000,000 (in 2004/05 prices) for the relevant year t and represents an allowance for payments by the licensee in respect of outage charges.

15D. Determination of non-incentivised SO costs relating to offshore electricity transmission

For the purposes of paragraph 13, $OFIC_t$ shall be derived from the following formula:

$$OFIC_t = OFDC_t + OFOC_t$$

where:

$OFDC_t$ represents the efficient costs as agreed by the Authority incurred by the licensee between 2 August 2006 and 31 March 2009 in preparing for the introduction of the offshore electricity transmission regulatory regime and shall in the relevant year commencing 1 April 2009 take the value £1.563 million and in each subsequent relevant year take the value zero.

$OFOC_t$ represents the allowed income adjustment to remunerate the internal costs efficiently incurred by the licensee associated with the balancing services activity arising as a result of the extension of the licensee's obligations, services and activities to offshore waters and shall be determined in accordance with paragraphs 15E to 15H.

15E. Notice of proposed offshore income adjustment

For the purposes of paragraph 15D, and in relation to $OFOC_t$, where the licensee considers, and provides supporting evidence that, in respect of relevant year $t-1$, it has incurred internal costs associated with the balancing services activity arising as a result of the extension of the licensee's obligations, services and activities to offshore waters, then:

- (a) the licensee shall no later than three months after the end of the relevant year $t-1$ give notice to the Authority which shall set out:

- (i) the costs and/or expenses claimed by the licensee to have been incurred in the relevant year t-1 and how the amount of these costs and/or expenses has been calculated;
 - (ii) the amount of any allowed income adjustment proposed by the licensee to be made in the relevant year t to reimburse those costs and/or expenses that have been incurred in the relevant year t-1; and
 - (iii) any other analysis or information which the licensee considers to be sufficient to enable the Authority and the relevant parties referred to in paragraph 15F to fully assess the licensee's proposal.
- (b) If the Authority considers that the analysis or information provided under paragraph 15E(a) above is insufficient to enable both the Authority and the relevant parties referred to in paragraph 15F to determine the amount of any allowed income adjustment, the Authority can reasonably request additional information from the licensee.
- (c) The Authority will make public, excluding any confidential information, any notice and any supporting analysis or information following its receipt.

15F. The Authority's determination

Where the licensee has given notice to the Authority pursuant to paragraph 15E, the Authority shall determine (in consultation with the licensee and relevant parties):

- (a) whether the costs and/or expenses that have been demonstrated by the licensee to have been incurred in the relevant year t-1 are associated with the internal balancing services activity arising due to the extension of the licensee's obligations to offshore waters;
- (b) whether the costs and/or expenses demonstrated by the licensee were efficiently incurred;
- (c) taking account of paragraphs 15F(a) and 15F(b) the amount of the allowed income adjustment (OFOC_t), shall take:
 - (i) in any relevant year commencing on or before 1 April 2009, the value zero;
 - (ii) in any relevant year during the period 1 April 2010 to 31 March 2013, that value (subject to paragraph 15H) that the Authority considers is sufficient to

remunerate those costs and/or expenses that have been efficiently incurred in the relevant year t-1, being an amount that is no greater than that proposed by the licensee in accordance with paragraph 15E(a)(ii); and

(iii) in any relevant year commencing on or after 1 April 2013, the value zero.

15G. Authority's determination of $OFOC_t$: supplementary provision

If the Authority has not made a determination of the value of the term $OFOC_t$ above within three months of the date on which notice was provided to the Authority, or where the Authority has requested further information from the licensee in accordance with paragraph 15E(b) the Authority has not made a determination of the value of the term $OFOC_t$ within three months or receiving such further information from the licensee the amount of the allowed income adjustment $OFOC_t$ shall:

- (a) in any relevant year commencing on or before 1 April 2009, take the value zero;
- (b) in any relevant year during the period 1 April 2010 to 31 March 2013, take that value (subject to paragraph 15H) specified by the licensee in respect of that relevant year in the notice given to the Authority under paragraph 15E(a)(ii); and
- (c) in any relevant year commencing on or after 1 April 2013, take the value zero.

15H. Limit on $OFOC_t$

For the purposes of paragraphs 15F(c)(ii) and 15G(b), the aggregate of the values for the term $OFOC_t$ in the period between 1 April 2010 to 31 March 2013 shall be no less than zero and no greater £6.655 million and if in the relevant year t, the value for the term $OFOC_t$:

- (a) determined by the Authority in accordance with 15F(c)(ii); or
- (b) specified by the licensee in the notice given to the Authority under paragraph 15E(a)(ii) in respect of that relevant year;

when aggregated with the value of the term $OFOC_t$ in the two previous relevant years exceeds the value £6.655 million then the term $OFOC_t$ shall be determined in accordance with the following formula:

$$OFOC_t = £6.655m - (OFOC_{t-1} + OFOC_{t-2})$$

16. Income adjusting events under the balancing services activity revenue restriction on internal costs

(a) An income adjusting event in relevant year t may arise from any of the following:

(i) an event or circumstance constituting force majeure under the STC;

(ii) an event or circumstance resulting from an amendment to the STC not allowed for in setting the allowed revenues of the licensee for the relevant year t; and

(iii) an event or circumstance other than listed above which is, in the opinion of the Authority, an income adjusting event and approved by it as such in accordance with paragraph 18 of this licence condition

where the event or circumstance has, for relevant year t, increased or decreased the value of $CSOOC_t$ or ACE_t by more than £1,000,000 (the “STC threshold amount”) and is demonstrably not included in $IMOT_t$ or $CSOCET_t$ respectively for relevant year t.

(b) For the purpose of relevant year t commencing on 1 April 2008 and ending on 31 March 2009, events or circumstances arising directly from the implementation or otherwise of the following proposed amendments (both the original and any alternative) listed in table 1 below shall not qualify as an income adjusting event for the purpose of paragraph 16(a) above:

Table 1:

Amendment No.	Amendment Title

17. Notice of proposed income adjusting event

- (a) Where the licensee considers, and can provide supporting evidence that, in respect of relevant year t, there have been costs and/or expenses that have been incurred or saved by an income adjusting event, then the licensee shall give notice of this event to the Authority.
- (b) A notice provided to the Authority under paragraph 17(a) shall give particulars of:
 - (i) the event to which the notice relates and the reason(s) why the licensee considers this event to be an income adjusting event;
 - (ii) the amount of any change in costs and/or expenses that can be demonstrated by the licensee to have been caused or saved by the event and how the amount of these costs and/or expenses has been calculated;
 - (iii) the amount of any allowed income adjustment proposed as a consequence of that event and how this allowed income adjustment has been calculated; and
 - (iv) any other analysis or information which the licensee considers to be sufficient to enable the Authority and the relevant parties referred to in subparagraph 18(a) to fully assess the event to which the notice relates.
- (c) If the Authority considers that the analysis or information provided in sub-paragraphs 17(b)(i) to 17(b)(iv) above is insufficient to enable both the Authority and the relevant parties referred to in subparagraph 18(a) to assess whether an income adjusting event has occurred and/or the amount of any allowed income adjustment that should be approved, the Authority can request that the supporting evidence be supplemented with additional information that it considers appropriate.
- (d) A notice of an income adjusting event shall be given as soon as is reasonably practicable after the occurrence of the income adjusting event, and, in any event, not later than three months after the end of the relevant year in which it occurs.
- (e) The Authority will make public, excluding any confidential information, any notice of an income adjusting event following its receipt.
- (f) Any notice submitted to the Authority under paragraph 17(a) above should clearly identify whether any of the information contained in the notice is of a confidential nature. The Authority shall make the final determination as to confidentiality having regard to:

- (i) the need to exclude from disclosure, so far as is reasonably practicable, information whose disclosure the Authority considers would or might seriously prejudicially affect the interests of a person to which it relates; and
- (ii) the extent to which the disclosure of the information mentioned in sub-paragraph 17(f)(i) is necessary for the purposes of enabling the relevant parties to fully assess the event to which the notice relates.

18. The Authority's determination

- (a) The Authority shall determine (after consultation with the licensee and such other persons as it considers desirable):
 - (i) whether any or all of the costs and/or expenses given in a notice pursuant to paragraph 17(a) were caused or saved by an income adjusting event;
 - (ii) whether the event or circumstance has increased or decreased the value of CSOOC_t or ACE_t by more than £1,000,000 (the "STC threshold amount") and is demonstrably not included in IMOT_t or CSOCET_t respectively for relevant year t;
 - (iii) if so, whether the amount of the proposed income adjustment ensures that the financial position and performance of the licensee are, insofar as is reasonably practicable, the same as if that income adjusting event had not taken place, and if not, what allowed income adjustment would secure that effect; and
 - (iv) the periods, if any, over which the amounts should apply.
- (b) In relation to the relevant year t, the allowed income adjustment (IAT_t) shall be:
 - (i) the value determined by the Authority under paragraph 18(a) above; or
 - (ii) if the Authority has not made a determination under paragraph 18(a) above within three months of the date on which notice of an income adjusting event was provided to the Authority, the amount of the allowed income adjustment proposed as a consequence of the event in the notice given to the Authority under sub-paragraph 17(b)(iii); or
 - (iii) in all other cases zero, including situations where the Authority has not made a determination under paragraph 18(a) above within three months of the date on which notice of an income adjusting event was provided to the Authority and the Authority has, before the end of that three month period, informed the licensee that

the Authority considers that the analysis or information provided in accordance with paragraphs 17(b) and/or 17(c) is insufficient to enable the Authority to assess whether an income adjusting event has occurred and/or the amount of any allowed income adjustment.

- (c) The Authority's decision in relation to any notice given under paragraph 17(a) shall be in writing, shall be copied to the licensee and shall be in the public domain.
- (d) The Authority may revoke an approval of an income adjusting event and allowed income adjustment with the consent of the licensee, following consultation with the licensee and relevant parties. Revocation of any income adjusting event and allowed income adjustment shall be in writing, shall be copied to the licensee and shall be in the public domain.

19. Not used.

Part 2 (iii): Information on the balancing services activity revenue restriction

- 20. (a) Not later than 3 months after the end of each relevant year the licensee shall send to the Authority a statement giving the value for that relevant year of the terms specified in subparagraph (c);
- (b) The statement referred to in subparagraph (a) shall:
 - (i) be certified by a director of the licensee on behalf of the licensee that to the best of his knowledge, information and belief having made all reasonable enquiries:
 - (A) there is no amount included in its calculations of the terms specified in subparagraph (c) which represents other than an amount permitted to be included by this special condition; and
 - (B) all amounts of which the licensee is aware and which should properly be taken into account for the purposes of this special condition have been taken into account; and
 - (ii) accompanied by a report from the Auditors that in their opinion:
 - (A) such statement fairly presents the value of each of the terms specified in subparagraph (c) in accordance with the requirements of this special condition; and

(B) the amounts shown in respect of each of those terms are in accordance with the licensee's accounting records which have been maintained in accordance with standard condition B1 (Regulatory accounts).

(c) The terms specified in this subparagraph are:

$BX_{ext,t}$, $CSOBM_t$, $BSCC_t$, ET_t , RT_t , $IncPayExt_t$, OM_t , $BX_{int,t}$, $IncPayInt_t$, $CSOC_t$, $CSOOC_t$, $CSOD_t$, $CSOR_t$, ACE_t and CP_{Mt}

and

BCA_{jt} , SCA_{jt} , BVA_{jt} , SVA_{jt} and QAS_{ij}

where:

BCA_{jt} is the Buy Price Cost Adjustment as from time to time defined in the BSC for each Settlement Period, in relevant year t.

SCA_{jt} is the Sell Price Cost Adjustment as from time to time defined in the BSC for each Settlement Period, in relevant year t.

BVA_{jt} is the Buy Price Volume Adjustment as from time to time defined in the BSC for each Settlement Period, in relevant year t.

SVA_{jt} is the Sell Price Volume Adjustment as from time to time defined in the BSC for each Settlement Period, in relevant year t.

QAS_{ij} is the volume of applicable balancing service energy in respect of BM Unit i, in settlement period j, defined in the BSC for each Settlement Period.

(d) The statement referred to subparagraph (a) shall separately identify components of the terms specified in subparagraph (c) to the extent stipulated in this special condition.

Part 2 (iv): TO incentives

21. Where there is a failure to agree between the licensee and a transmission owner in relation to:

(a) whether a change to the outage plan is an outage change; or

- (b) the net costs reasonably incurred by the transmission owner as a result of an outage change

the licensee shall provide the Authority such information as the Authority may reasonably request in relation to such disagreement.

21A An “outage change” is a change notified to a transmission owner by the licensee on or after week 49 to the outage plan, as updated from time to time in accordance with the STC, other than:

- (a) a change to the outage plan requested by a transmission owner (the “original change”);
and

- (b) such changes notified to the transmission owner by the licensee which:

- (i) the licensee and the transmission owner agree are necessary in order to give effect to the original change, or

- (ii) where there is a failure to agree, the Authority determines are necessary in order to give effect to the original change;

and

- (c) without prejudice to subparagraphs (a) and (b) above, any change to the outage plan notified to the transmission owner by the licensee which the licensee and the transmission owner agree is not an outage change under this licence condition (a “non-chargeable outage change”). For the avoidance of doubt, any costs and/or expenses incurred by the licensee in relation to a non-chargeable outage change will not be considered by the Authority to be a reasonable cost or expense in relation to an outage cost adjusting event notified by the licensee under paragraph 23 (a).

21B For the purposes of paragraph 21 and paragraph 21A, “outage plan” and “week 49” shall have the same meanings as defined or used in the STC.

22. (a) An outage cost adjusting event in relevant year t may arise from either of the following:

- (i) where the actual costs incurred by the licensee in making outage changes are, or where the licensee’s reasonable expectation of the actual costs in making outage changes will be either less than or in excess of ON_t in each case by more than £300,000 (the “outage threshold amount) or such other figure as the Authority has

specified for the relevant year where ON_t has the value ascribed to it in paragraph 14 above; and

(ii) an event or circumstance other than listed above which is, in the opinion of the Authority, an outage cost adjusting event and is approved by it as such in accordance with paragraph 24 of this licence condition.

23. Notice of proposed outage cost adjusting event

- (a) Where the licensee considers, and can provide supporting evidence that, in respect of relevant year t , there have been costs and/or expenses that have been incurred or saved by an outage cost adjusting event, then the licensee shall give notice of this event to the Authority.
- (b) A notice provided to the Authority under paragraph 23(a) shall give particulars of:
 - (i) the event to which the notice relates and the reason(s) why the licensee considers this event to be an outage cost adjusting event;
 - (ii) the amount of any change in costs and/or expenses that can be demonstrated by the licensee to have been caused or saved by the event and how the amount of these costs and/or expenses has been calculated;
 - (iii) the amount of any allowed income adjustment proposed as a consequence of that event and how this allowed income adjustment has been calculated; and
 - (iv) any other analysis or information which the licensee considers to be sufficient to enable the Authority and the relevant parties referred to in subparagraph 24(a) to fully assess the event to which the notice relates.
- (c) If the Authority considers that the analysis or information provided in sub-paragraphs 23(b)(i) to 23(b)(iv) above is insufficient to enable both the Authority and the relevant parties referred to in subparagraph 24(a) to assess whether an outage cost adjusting event has occurred and/or the amount of any allowed income adjustment that should be approved, the Authority can request that the supporting evidence be supplemented with additional information that it considers appropriate.
- (d) A notice of an outage cost adjusting event shall be given as soon as is reasonably practicable after the occurrence of the outage cost adjusting event, and, in any event, not later than three months after the end of the relevant year in which it occurs.

- (e) The Authority will make public, excluding any confidential information, any notice of an outage cost adjusting event following its receipt.
- (f) Any notice submitted to the Authority under either paragraph 23(a) above should clearly identify whether any of the information contained in the notice is of a confidential nature. The Authority shall make the final determination as to confidentiality having regard to:
 - (i) the need to exclude from disclosure, so far as is reasonably practicable, information whose disclosure the Authority considers would or might seriously prejudicially affect the interests of a person to which it relates; and
 - (ii) the extent to which the disclosure of the information mentioned in sub-paragraph 23(f)(i) is necessary for the purposes of enabling the relevant parties to fully assess the event to which the notice relates.

24. The Authority's determination

- (a) The Authority shall determine (after consultation with the licensee and such other persons as it considers desirable):
 - (i) whether any or all of the costs and/or expenses given in a notice pursuant to paragraph 23(a) were caused or saved by an outage cost adjusting event;
 - (ii) whether the event or circumstance has increased or decreased the licensee's relevant costs in making outage changes such that they will be either less than or in excess of ON_t in each case by more than the outage threshold amount; and
 - (iii) if so, whether the amount of the proposed income adjustment ensures that the financial position and performance of the licensee are, insofar as is reasonably practicable, the same as if that outage cost adjusting event had not taken place, and if not, what allowed income adjustment would secure that effect.
- (b) In relation to the relevant year t , the allowed income adjustment ($IONT_t$) shall be:
 - (i) the value determined by the Authority under paragraph 24(a) above; or
 - (ii) if the Authority has not made a determination under paragraph 24(a) above within three months of the date on which notice of an outage cost adjusting event was provided to the Authority, the amount of the allowed income adjustment proposed as a consequence of the event in the notice given to the Authority under sub-paragraph 23(b)(iii); or

- (iii) in all other cases zero, including situations where the Authority has not made a determination under paragraph 24(a) above within three months of the date on which notice of an outage cost adjusting event was provided to the Authority and the Authority has, before the end of that three month period, informed the licensee that the Authority considers that the analysis or information provided in accordance with paragraphs 23(b) and/or 23(c) is insufficient to enable the Authority to assess whether an outage cost adjusting event has occurred and/or the amount of any allowed income adjustment.
- (c) The Authority's decision in relation to any notice given under paragraph 23(a) shall be in writing, shall be copied to the licensee and shall be in the public domain.
- (d) The Authority may revoke an approval of an outage cost adjusting event and allowed income adjustment with the consent of the licensee, following consultation with the licensee and relevant parties. Revocation of any outage cost adjusting event and allowed income adjustment shall be in writing, shall be copied to the licensee and shall be in the public domain.