

Generic Offshore Transmission Owner (OFTO) Special Licence Conditions

Version History

Version Number	Date Published	Comments
0.1	23 March 2009	Initial version published alongside final DECC/OFGEM consultation.
0.2	23 July 2009	Revised version incorporating responses to the March Consultation and the Brattle Group's review of the licence drafting.

Structure

The special licence conditions are grouped based on the particular purpose they serve:

Section A includes "mechanical" parts of the licence, including definitions and implementation provisions for the offshore transmission regulatory regime;

Section B details the conditions on the scale, operation and management of the licensee's business, including the geographic area in which they are licences, and the business separation and compliance requirements;

Section C specifies the revenue entitlement of the licensee, and the elements that affect it, namely revenue adjustments and performance incentives; and

Section D outlines the regulatory reporting requirements.

The terms are set out in Schedules. In this document, **Schedule 1** defines the Specified Area and **Schedule 2** specifies the revocation terms that would apply to OFTO licences.

Special Condition A1. Definitions and interpretation

1. In these special conditions unless the context otherwise requires:

"competent authority"	For the purposes of special condition B5 (restriction on use of certain information) only, means the Secretary of State, the Authority, the Compliance Officer, the Stock Exchange, the Panel on Take-overs and Mergers, or any local or national agency, regulatory body, authority, department, inspectorate, minister (including Scottish Ministers), ministry, official or public or statutory person (whether autonomous or not) of, or of the government of, the United Kingdom, the United States of America or the European Community.
“confidential information”	for the purposes of special condition B5 (Restriction on use of certain information) only, means any information relating to or deriving from the management or operation of the transmission business.
“Electricity Arbitration Association”	for the purposes of special condition B5 (Restriction on use of certain information) only, means the unincorporated members' club of that name formed inter alia to promote the efficient and economic operation of the procedure for the resolution of disputes within the electricity supply industry by means of arbitration or otherwise in accordance with its arbitration rules.

“external transmission activities”

means any business of the licensee or any affiliate or related undertaking of the licensee comprising or ancillary to the maintenance, repair or operation in an emergency of any electricity distribution system or any part of the national electricity transmission system other than the licensee's transmission system.

2. Subject to paragraph 1, unless the context otherwise requires, words and expressions used in the standard conditions of this licence shall bear the same meaning in these special conditions.
3. Where a term is used in these special conditions and is also used in Section E of the standard conditions for electricity transmission licences then, unless the context otherwise requires, it shall have the same meaning in these special conditions as is ascribed to that term in Section E of the standard conditions.
4. Any reference in these special conditions to -
 - (a) a provision thereof;
 - (b) a provision of the standard conditions of electricity transmission licences;
 - (c) a provision of the standard conditions of electricity supply licences;
 - (d) a provision of the standard conditions of electricity distribution licences;
 - (e) a provision of the standard conditions of electricity generation licences;
 - (f) a provision of the standard conditions of electricity interconnector licences;shall, if these or the standard conditions in question come to be modified, be construed, so far as the context permits, as a reference to the corresponding provision of these or the standard conditions in question as modified.

Special Condition A2 – Revenue Implementation Direction

1. The revenue entitlement of the licensee, determined in accordance with paragraph 3 of special condition C2 (Restriction of Transmission Revenue: revenue from transmission owner services) shall not commence until the Authority has issued to the licensee a direction in accordance with paragraph 2.
2. The Authority shall issue a direction (a "Revenue Implementation Direction"), where it is considers that the licensee has satisfactorily demonstrated that it has met the conditions precedent determined at the time at which this licence was granted to the licensee, which shall be:
 - (a) [insert conditions precedent];
3. The Authority may specify in the direction, following agreement with the licensee, such terms that are necessary for the implementation of the revenue entitlement of the licensee, including (without limitation):
 - (a) any adjustment to the tender revenue stream to reflect the Authority's assessment of the efficient cost that ought to have been incurred in developing and constructing the transmission system to which this licence relates; and
 - (b) where a transitional tender exercise has taken place, any adjustment to the performance availability incentive target to reflect the Authority's assessment of the capability of the transmission system of the licensee.
4. Where the Authority has issued such a direction to the licensee, the revenue entitlement shall begin to have effect within this licence from the date specified in the direction (being the "commencement date") and, unless otherwise directed by the Authority, the revenue entitlement shall cease to have effect within this licence from the date specified in the direction (being the "closing date") which shall be a date no less than twenty calendar years from the commencement date.
5. The financial year within which the commencement date falls shall be deemed to be the commencement relevant year. The financial year within which the closing date falls shall be deemed to be the closing relevant year.
6. The Authority may, with the consent of the licensee vary the terms (as set out in the Revenue implementation Direction or elsewhere) under which the revenue entitlement has effect in this licence.

Special Condition B1: Transmission system area

1. Is the “[xxx] transmission system” located within the transmission area.

2. In this condition, the “[xxx] transmission system” means the offshore transmission system extending from [A] to [B] together with all associated cables, transformers, switchgear and connections, and all other items of plant or equipment making up or supporting the said transmission system with the benefit, subject to the applicable conditions therein, of all wayleaves and/or servitude rights relating thereto.

where:

[A] is [the defined onshore connection point]

[B] is [the defined offshore connection points]

In this condition, the transmission area is the geographic area set out in annex A to this condition.

ANNEX A TO SPECIAL CONDITION B1 (TRANSMISSION SYSTEM AREA)

The transmission area is the marked area set out below.

Special Condition B2: Activities restrictions

1. Subject to the provisions of paragraph 2 below (which are made in accordance with section 7(2A)(a) of the Act), the licensee is authorised by paragraph 1 of Part I of this licence to participate in the transmission of electricity for the purpose of giving a supply to any premises or enabling a supply to be so given.
2. The licensee shall not:
 - (a) co-ordinate or direct the flow of electricity onto or over the whole or any part of the national electricity transmission system except where permitted to do so under the STC, subject to the approval of the Authority, or where required to do so by any other licence condition; and
 - (b) outside of the transmission system area, make available assets comprising part of the national electricity transmission system which are intended for the purpose of conveying or affecting the flow of electricity, except where the Authority has issued a direction to the licensee pursuant to standard condition E21 (Offshore Transmission Owner of Last Resort) insofar as it relates to the transmission system specified in that direction.

Special Condition B3: Conduct of the Transmission Business

1. The licensee shall conduct its transmission business in the manner best calculated to secure that, in meeting its obligations under this licence:
 - (a) the licensee;
 - (b) any affiliate or related undertaking of the licensee including, for the avoidance of doubt:
 - (i) any affiliate or related undertaking that intends to participate in a competitive tender exercise to be appointed as an offshore transmission owner; or
 - (ii) any affiliate or related undertaking participating in a competitive tender exercise to be appointed as an offshore transmission owner;that is a subsidiary of, or is controlled by the ultimate controller of, the licensee;
 - (c) any user of the national electricity transmission system; or
 - (d) any other transmission licensee;

obtains no unfair commercial advantage including, in particular, any such advantage from a preferential or discriminatory arrangement, being, in the case of such an advantage accruing to the licensee, one in connection with a business other than its transmission business.

2. Except insofar as the Authority may direct, the licensee shall:
 - (a) secure separate premises, equipment, systems for recording and storing data, facilities, staff, and property from those owned by the transmission licensee that, being a holder of a co-ordination licence, is responsible for co-ordinating and directing the flow of electricity onto or over the national electricity transmission system; and
 - (b) secure that no associated business of the licensee shall use, or have access to, premises, equipment, systems for recording and storing data, facilities, staff and property that is owned by the licensee.

Special Condition B4: Separation and Independence of Transmission Businesses

1. The licensee, in carrying out its licensed activities, shall put in place and at all times maintain such systems of control and other governance arrangements which are necessary to ensure that the licensee complies with the obligations contained in standard condition E6 (Prohibition of Cross-subsidies), standard condition E7 (Restriction on Activity and Financial Ring Fencing), and Special Condition B3 (Conduct of the Transmission Business).
2. Unless otherwise directed by the Authority, the licensee shall by no later than 30 days after this condition comes in to effect have in place a statement (“the statement”), approved by the Authority, describing the practices, procedures and systems which the licensee has adopted (or intends to adopt) to secure compliance with paragraph 1.
3. Where the Authority does not indicate otherwise within 60 days of receipt of the statement, the statement shall be deemed to be approved by the Authority.
4. The statement shall in particular (but without prejudice to the generality of paragraph 1) set out how the licensee shall:
 - (a) maintain appropriate managerial and operational independence of the licensee in undertaking its activities under its licence, from any associated business;
 - (b) Except insofar as the Authority consents to the licensee not doing so, the licensee shall ensure that:
 - (i) no business of the licensee (or of any affiliate or related undertaking of the licensee), other than the transmission business or any external transmission activities, may use or have access to:
 - (aa) premises or parts of premises occupied by persons engaged in, or engaged in respect of, the management or operation of the transmission business or any external transmission activities;
 - (bb) systems for the recording, processing or storage of data to which persons engaged in, or engaged in respect of, the management or operation of the transmission business or any external transmission activities also have access;

- (cc) equipment, facilities or property employed for the management or operation of the transmission business or any external transmission activities; or
 - (dd) the services of persons who are (whether or not as their principal occupation) engaged in, or in respect of, the management or operation of the transmission business or any external transmission activities; and
 - (ii) it can and does, insofar as is legally possible, prevent any person who has ceased to be engaged in, or in respect of, the management or operation of the transmission business from being engaged in, or in respect of, the activities of any other business of the licensee (or of any affiliate or related undertaking of the licensee) until the expiry of an appropriate time from the date on which he ceased to be engaged by the transmission business.
5. The managerial and operational independence referred to in paragraph 4(a) above shall include the establishment of separate boards for the transmission business and associated businesses.
 6. Each member of such boards who is also a director of the offshore transmission business shall fulfil their role in relation to the taking of such decisions as if he or she were a director of a legally incorporated company whose sole business is the business in respect of which the board he or she is a member of has been established.
 7. The licensee shall revise the statement prepared in accordance with paragraph 2 when circumstances change such that the statement prepared in accordance with paragraph 2 no longer secures compliance with paragraph 1. Such revision of the statement shall only become effective once the Authority has approved the revised statement in accordance with paragraph 2 or 3.
 8. The licensee shall use its best endeavours to ensure compliance with the terms of the statement as from time to time revised and approved by the Authority.
 9. The licensee shall publish a copy of the approved statement prepared in accordance with paragraph 2 (or the latest approved revision) on its company website within five working days of its approval by the Authority.

10. In this condition:

“associated business”	means an affiliate, related undertaking, or business unit of the transmission business or the ultimate controller of the transmission business.
"external transmission activities"	means any business of the licensee or any affiliate or related undertaking of the licensee comprising or ancillary to the maintenance, repair or operation in an emergency of any electricity distribution system or any part of the national electricity transmission system other than the licensee's transmission system.

Special Condition B5: Restriction on use of certain information

1. Any information relating to or deriving from the management or operation of the transmission business shall, for the purposes of this condition, be treated as confidential information.
2. The licensee shall not (and shall procure that its affiliates and related undertakings shall not) disclose or authorise access to confidential information:
 - (a) save to the extent provided by sub-paragraphs 3(b) to (d), to such of its (or its affiliates' or related undertakings') employees, agents, advisers, consultants or contractors as are engaged in, or in respect of, the management or operation of any other business (whether or not a separate business) of the licensee; or
 - (b) save to the extent permitted by paragraph 3, to any other person.
3. The licensee shall (and shall procure that its affiliates and related undertakings shall) disclose or authorise access to confidential information only:
 - (a) in the following circumstances, namely;
 - (i) to such of its (or its affiliates' or related undertakings') employees, agents, advisers, consultants or contractors as are engaged in, or in respect of, the management or operation of the transmission business or any external transmission activities and require access to the information for that purpose;
 - (ii) to personnel of any holder of or a transmission licence holder engaged or the external transmission activities of that transmission licence holder (as the case may be), to the extent necessary for the performance by such personnel of those external transmission activities (as the case may be), and the use by such personnel of that information for that purpose;

provided that effective arrangements are maintained in place at all times for ensuring that no further disclosure of any information supplied or obtained pursuant to this paragraph is made and that such information is used only for

the purpose of the transmission business or any external transmission activities of the licensee;

- (b) where the licensee (or any affiliate or related undertaking of the licensee) is required or permitted to disclose such information by virtue of:
 - (i) any requirement of a competent authority;
 - (ii) the standard conditions of any licence granted or taking effect as if granted under the Act or any document referred to in such a licence with which it is required by virtue of the Act or that licence to comply;
 - (iii) any other requirement of law; or
 - (iv) the rules of the Electricity Arbitration Association or of any judicial or other arbitral process or tribunal of competent jurisdiction;
- (c) where such information was provided by or relates to any person who has notified (or otherwise agreed with) the licensee that it need not be treated as confidential;
- (d) where such information, not being information provided by or relating to any person other than the licensee, is placed by the licensee in the public domain; or
- (e) where such information is required for the purposes of assisting the holder of a co-ordination licence, to prepare for and plan and develop the operation of a national electricity transmission system

and in each case the licensee shall disclose or authorise access to the confidential information only insofar as is necessary or appropriate in all the circumstances.

- 4. The licensee shall use all reasonable endeavours to ensure that any person who is in possession of or has access to confidential information in accordance with subparagraph 3(a) shall use such information only for the purposes of the transmission business or any external transmission activities.

Special Condition B6: Appointment of compliance officer

- (a) The licensee shall, following consultation with the Authority, appoint a competent person (who shall be known as the "Compliance Officer") for the purpose of facilitating compliance by the licensee with this condition and with standard condition E6 (Prohibition of Cross-subsidies), standard condition E7 (Restriction on Activity and Financial Ring Fencing), Special Condition B3 (Conduct of the Transmission Business) and Special Condition B4 (Separation and Independence of the Transmission Business) and B5 (Restriction on the Use of Information)(the "relevant duties").
- (b) The licensee shall at all times engage the services of the Compliance Officer is engaged for the performance of such duties and tasks as the licensee considers it appropriate to assign to him for the purposes specified at paragraph 1, which duties and tasks shall include those set out at paragraph 7.
- (c) The licensee shall ensure that the Compliance Officer is not engaged in the management or operation of the licensee's transmission system or the activities of any associated business.
- (d) The licensee shall establish a compliance committee (being a committee of the board of directors of the licensee) for the purpose of overseeing and ensuring the performance of the duties and tasks of the Compliance Officer set out in paragraph 7 and the compliance of the licensee with its relevant duties. Such compliance committee shall report to the board of directors of the licensee and shall include among its members a director responsible for day-to-day compliance with the activities of this licence and such persons from within the licensee's business as are responsible for the management of regulatory issues relating to the licence.
- (e) The licensee shall procure that the Compliance Officer:
 - (a) is provided with such staff, premises, equipment, facilities and other resources; and
 - (b) has such access to its premises, systems, information and documentationas, in each case, he might reasonably expect to require for the fulfilment of the duties and tasks assigned to him.
- (f) The licensee shall make available to the Compliance Officer a copy of any complaint or representation received by it from any person in respect of a matter arising under or by virtue of the relevant duties.

- (g) The duties and tasks assigned to the Compliance Officer shall include:
- (a) providing relevant advice and information to the licensee for the purpose of ensuring its compliance with the relevant duties;
 - (b) monitoring the effectiveness of the practices, procedures and systems adopted by the licensee in accordance with the statement referred to in Special Condition B4 (Separation and Independence of the Transmission Business) and reporting thereon, this shall include, but not be limited to:-
 - (i) ensuring the contracts of employment or engagement of relevant personnel shall include a statement on the importance of not disclosing information to other parties set out in paragraph 2 of Special Condition B3 (conduct of the Transmission Business). For this purpose a relevant member of staff or external person or consultant acting in such a role is anyone who are aware of any information which could enable any unfair commercial advantage being obtained including, in particular, any such advantage from a preferential or discriminatory arrangement, being, in the case of such an advantage accruing to the licensee, one in connection with a business other than its transmission business.
 - (ii) ensuring that each of the processes required under the Standard Conditions are monitored in respect of the effectiveness of their practices, procedures, systems and the supervision and sign off process relating to the release of information which could enable an unfair commercial advantage to be obtained by the parties set out in paragraph 2 of Special Condition B3 (conduct of the Transmission Business);
 - (c) advising whether, to the extent that the implementation of such practices, procedures and systems require the co-operation of any other person, they are designed so as reasonably to admit the required co-operation;
 - (d) investigating any complaint or representation made available to him in accordance with paragraph 6;
 - (e) recommending and advising upon the remedial action which any such investigation has demonstrated to be necessary or desirable;

- (f) providing relevant advice and information to the licensee (including individual directors of the licensee) and the compliance committee established under paragraph 4 of this condition, for the purpose of ensuring its implementation of;
 - (i) the practices, procedures and systems adopted in accordance with the statement referred to at paragraph 2 of Special Condition B4 (Separation and Independence of the Transmission Business); and
 - (ii) any remedial action recommended in accordance with sub-paragraph (e);
- (a) reporting to the compliance committee any instances which come to his attention, relating to a member of either of the boards established under paragraph 5 of Special Condition B4 (Separation and Independence of the Transmission Business), taking into account the interests of a business other than that in respect of which the board of which he is a member of has been established; and
- (b) reporting annually to the compliance committee established under paragraph 3 of this condition, [in respect of each year after this condition comes into force], as to his activities during the period covered by the report, including the fulfilment of the other duties and tasks assigned to him by the licensee.
- (c) reporting annually to the board of directors of the licensee as to his activities during the period covered by the report, including the fulfilment of the other duties and tasks assigned to him by the licensee.
- (h) As soon as is reasonably practicable following each annual report of the compliance officer, the licensee shall produce a report in a form approved by the Authority:
 - (a) as to its compliance during the relevant year with the relevant duties; and
 - (b) as to its implementation of the practices, procedures and systems adopted in accordance with the statement referred to at paragraph 2 of Special Condition B4 (Separation and Independence of the Transmission Business)
- (i) The report produced in accordance with paragraph 8 shall in particular:
 - (a) detail the activities of the Compliance Officer during the relevant year;
 - (b) refer to such other matters as are or may be appropriate in relation to the implementation of the practices, procedures and systems adopted in accordance with the statement at

paragraph 2 of Special Condition B4 (Separation and Independence of the Transmission Business); and

- (c) set out the details of any investigations conducted by the compliance officer, including:
 - (i) the number, type and source of the complaints or representations on which such were based;
 - (ii) the outcome of such investigations; and
 - (iii) any remedial action taken by the licensee following such investigations;
- (d) be accompanied by a certificate, approved by a resolution of the board of directors of the licensee and signed by a director pursuant to that resolution, on the degree to which the licensee has achieved compliance with its relevant duties and that the report of the compliance officer fairly present the licensee's compliance with its relevant duties.
- (j) The licensee shall, as soon as reasonably practicable, submit to the Authority a copy of the report produced in accordance with paragraph 8 of this condition, and shall publish the report on its website.

Special Condition C1 - Restriction of Transmission Revenues: Definitions

1. In this condition and in special conditions C2 to C10 inclusive:

“allowed pass-through items”	means the items referred to in special condition C4 (Restriction of transmission charges: Allowed pass-through items).
“allowed transmission owner revenue”	means in the commencement relevant year and every subsequent relevant year the revenue calculated in accordance with the formula set out in paragraph 3 of special condition C2 (Restriction of Transmission Revenues);
"average specified rate"	means the average of the daily base rates of Barclays Bank plc (or any other [bank] as the Authority may from time to time direct) during the period in respect of which the calculation falls to be made.
“base transmission revenue”	means the revenue calculated in accordance with the formula set out in paragraph 3 of special condition C2 (Restriction of Transmission Revenues).
“closing relevant year”	means the relevant year in which the date, specified in the Revenue Implementation Direction issued by the Authority pursuant to special condition A2 (Revenue Implementation Direction) as being the closing date, falls to occur.
“commencement relevant year”	means the relevant year in which the date, specified in the Revenue Implementation Direction issued by the

	Authority pursuant to special condition A2 (Revenue Implementation Direction) as being the commencement date, falls to occur.
“Crown Estate Licence”	means any licence, lease, or agreement entered in to by the licensee with the Crown Estate relating to the use of Crown Estate property to enable the transmission of electricity over the licensee’s transmission system.
"excluded services"	means those services provided by the licensee as part of its transmission business which in accordance with the principles set out in Part A of Schedule A (Supplementary provisions of the charge restriction conditions), fall to be treated as excluded services.
“incentive period”	means the twelve months from 1 April to 31 March in the relevant year t-1.
"metered"	means in relation to any quantity of units of electricity transmitted, as measured by a meter installed for such purpose or (where no such meter is installed) as otherwise reasonably calculated.
“network rates”	means: <ul style="list-style-type: none"> (a) in England and Wales, the rates payable by the licensee in respect of hereditaments on the Central Rating Lists (England and Wales) compiled under section 52 of the Local

Government Finance Act 1988; and

(b) in Scotland, the rates payable by the licensee in respect of any land and heritages on the Valuation Rolls compiled under the Local Government Scotland Act 1975, the Local Government etc (Scotland) Act 1994, or any legislation amending or replacing those enactments

"regulated transmission revenue"

means the revenue (measured on an accruals basis) derived from the provision of transmission owner services (including to any separate business, other than the transmission business) in the relevant year, after deduction of value added tax (if any) and any other taxes based directly on the amounts so derived.

"relevant year"

means a financial year commencing on or after 1 April 1990.

"relevant year t"

means that relevant year for the purposes of which any calculation falls to be made.

"relevant year t-1"

means the relevant year immediately preceding relevant year t or, in respect of the period prior to 1 April 1990, the period of 12 calendar months commencing on 1 April 1989; and similar expressions shall be construed accordingly.

“tender relevant year”	means the relevant year in which the date that the tender exercise to which the grant of this licence relates was concluded falls.
"transmission owner services"	means all services provided as part of the transmission business other than excluded services.
"unit"	means a kilowatt hour.

Special Condition C2 – Restriction of Transmission Revenue: revenue from transmission owner services

- 1 The purpose of this condition is to establish the revenue restriction that determines the allowed transmission owner revenue that the licensee may earn from its transmission owner services.

Part A: Transmission Owner Revenue Restriction

- 2 The licensee shall take all appropriate steps within its power to ensure that in any relevant year t, regulated transmission revenue shall not exceed the allowed transmission owner revenue calculated in accordance with the formula given in paragraph 3 below.

Formula for Allowed Transmission Owner Revenue (OFTO_t)

- 3 For the purposes of this condition, allowed transmission owner revenue (OFTO_t) shall take the value of zero except in the commencement relevant year t and each subsequent relevant year up to and including the termination relevant year, where allowed transmission owner revenue (OFTO_t) shall be calculated in accordance with the following formula:

$$OFTO_t = BR_t - PT_t + PA_t - K_t$$

where:

OFTO_t means allowed transmission owner revenue in the relevant year t.

BR_t means base transmission revenue which shall, in respect of the period specified in the direction issued by the Authority pursuant to paragraph [2] of Special Condition A2 (Revenue Implementation Direction), be calculated as:

$$BR_t = (TRS + PTR_A) \times PR_t \times RIT_t$$

where:

TRS means the tender revenue stream and shall take the value of [£xxx] being in tender relevant year prices;

PTR_A means the adjustment to tender revenue stream, being the value

specified in the direction made by the Authority pursuant to paragraph [2] of Special Condition A2 (Revenue Implementation Direction), that arises as a consequence of the difference between:

- (i) the Authority's best estimate, determined by the Authority as part of the tender exercise, of the costs of developing and constructing the transmission system to which this licence relates; and
- (ii) the Authority's assessment, determined by the Authority once the transmission system has been transferred to the licensee, of the efficient costs that ought to have been incurred in developing and constructing the transmission system to which this licence relates.

being in tender relevant year prices.

PR_t means the revenue allocation term representing the proportion of the tender revenue stream to be recoverable in that relevant year and shall take the value 1, except:

- (i) in respect of the commencement relevant year where it shall take the value specified for that year in the direction made by the Authority pursuant to paragraph [2] of Special Condition A2 (Revenue Implementation Direction);
- (ii) in respect of the closing relevant year where it shall take the value specified for that year in the direction made by the Authority pursuant to paragraph [2] of Special Condition A2 (revenue Implementation Direction); and
- (iii) in all relevant years subsequent to the closing relevant year, where it shall take the value zero.

RIT_t is the revenue indexation adjustment for the relevant year t , and shall be derived from the following formula:

$$RIT_t = \left(1 + \frac{RPI_t}{100}\right) \times RIT_{t-1}$$

where:

RPI_t means the percentage change (whether of a positive or a negative value) in the arithmetic average of the Retail Price Index numbers published or determined with respect to each of the twelve months from January to December (both inclusive) in relevant year t-2 and the arithmetic average of the Retail Price Index numbers published or determined with respect to the same months in relevant year t-1; and

In the tender relevant year, RIT_{t-1} shall take the value 1.

PT_t means the revenue adjustment term, whether of a positive or of a negative value, made in the relevant year t in respect of allowed pass through items as derived in accordance with special condition C3 (Restriction of Transmission Revenue: Allowed pass-through items);

PA_t means the revenue adjustment term, whether of a positive or of a negative value, made in the relevant year t in respect of annual revenue adjustments as derived in accordance with special condition C4 (Restriction of Transmission Revenue: Annual revenue adjustments);

K_t means the revenue restriction correction factor, whether of a positive or of a negative value, which is calculated in accordance with the formula below:

$$K_t = (AR_{t-1} - OFTO_{t-1}) \times \left[1 + \frac{(I_t + PI_t)}{100} \right]$$

where:

AR_{t-1} means the regulated transmission revenue in respect of the relevant year t-1.

$OFTO_{t-1}$ means the allowed transmission owner revenue in the relevant year t-1.

I_t means the average specified rate (as defined under those words in special condition C1 (Restriction of Transmission Revenue: Definitions)) in the relevant year t.

PI_t means the penalty interest rate in relevant year t, which is equal to:

(a) where

$$AR_{t-1} > 1.08 \times OFTO_{t-1} \text{ where (AR, the value [two];}$$

and

(b) otherwise, it shall take the value zero.

Special Condition C3: Restriction of transmission revenue: Allowed pass-through items

1. The purpose of this condition is to provide for revenue adjustments to reflect certain costs that can be passed through to consumers as part of allowed transmission owner revenue.
2. For the purposes of paragraph 3 of special condition C2 (Restriction of transmission revenue: revenue from transmission owner services) PT_t is derived from the following formula:

$$PT_t = LF_t + RB_t + CEL_t + DC_t + IAT_t + TPD_t$$

where

LF_t means the licence fee cost adjustment term, whether of a positive or of a negative value, as derived from the formula set out in paragraph 3.

RB_t means the network rates cost adjustment term, whether of a positive or of a negative value, as derived from the formula set out in paragraphs 4.

CEL_t means the Crown Estate licence cost adjustment term, whether of a positive or negative value, as derived from the formula set out in paragraph 6.

DC_t means the decommissioning cost adjustment term, whether of a positive or negative value, as derived from the formula set out in paragraphs [8] to [14]

IAT_t means the income adjusting event revenue adjustment term, whether of a positive or of a negative value, and shall be determined in accordance with paragraphs [15] to [25].

TPD_t means the temporary physical disconnection term and shall be determined in accordance with paragraph [26].

Formula for the Licence Fee Cost Adjustment (LF_t)

3. For the purposes of paragraph 2, LF_t is an amount in respect of licence fee payments and means the amount equal to the payments made by the licensee, in the relevant year t , in accordance with its obligations set out in standard licence condition A4 (Payments to the Authority);

Formula for the Network Rates Cost Adjustment (RB_t)

4. For the purposes of paragraph 2, RB_t is an amount in respect of networks rates payments and means the amount equal to the rates payments made by the licensee in the relevant year t .
5. The licensee shall use reasonable endeavours to minimise the costs that it will incur in respect of network rates. If the Authority is not satisfied that the licensee has used reasonable endeavours to minimise the costs that the licensee will incur in respect of network rates in respect of the relevant year t , then for the purposes of paragraph 4 the Authority may, following consultation with the licensee, direct the value of the term RB_t being an amount not less than zero.

Formula for Crown Estate Licence Cost adjustment (CEL_t)

6. For the purposes of paragraph 2, CEL_t is an amount in respect of the Crown Estate licence payment and means the amount equal to the payments made by the licensee, in the relevant year t , in accordance with its obligations set out in its Crown Estate licences.
7. The licensee shall use reasonable endeavours to minimise the costs that it will incur in respect of Crown Estate licence payment in respect of the relevant year t and subsequent relevant years. If the Authority is not satisfied that the licensee has used reasonable endeavours to minimise the costs that the licensee will incur in respect of Crown Estate licence payments in respect of the relevant year t , then for the purposes of paragraph 6 the Authority may, following consultation with the licensee, direct the value of the term CEL_t being an amount not less than zero.

Formula for Decommissioning cost adjustment (DC_i)

8. Where the licensee considers, and can provide supporting evidence that, that there will be additional costs and/or expenses in relation to the licensee's obligations with respect to decommissioning of the transmission system that has arisen due to a change in legislative requirements, then the licensee shall give notice of this event to the Authority.
9. A notice provided to the Authority under paragraph [8] shall give particulars of:
 - (a) the change in legislative requirements to which the notice relates and the reason(s) why the licensee considers that it will face additional costs or expenses in complying with those obligations;
 - (b) the expected amount of any change in costs and/or expenses that can be demonstrated by the licensee to be caused by the change in decommissioning requirements and how the amount of these costs and/or expenses has been calculated;
 - (c) the proposed amount of any allowed revenue adjustment proposed as a consequence of the change in decommissioning requirements and how this allowed revenue adjustment has been calculated; and
 - (d) Any other analysis or information, which the licensee considers sufficient to enable the Authority to fully assess the change in legislative requirements to which the notice relates.
10. If the Authority considers that the analysis or information provided in sub-paragraphs [9(a)] to [9(d)] above is insufficient to enable the Authority to assess whether a change in decommissioning requirements has occurred and/or the amount of any allowed income adjustment that might be approved, the Authority can request that the supporting evidence be supplemented with additional information that it considers appropriate.
11. A notice referred to in paragraph 8 shall be given as soon as is reasonably practicable after the occurrence of the change in requirements, and, in any event, not later than three months after the end of the relevant year in which it occurs.
12. The Authority shall determine:

- (a) whether any or all of the costs and/or expenses given in a notice pursuant to paragraph 8 were caused by the change in legislative requirements;
 - (b) 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 change in legislative decommissioning requirements had not taken place, and if not, what allowed income adjustment would secure that effect; and
 - (c) the periods, if any, over which the amounts should apply.
13. In relation to the relevant year t , the decommissioning cost adjustment term (DC_t) shall be:
- (a) the value determined by the Authority under paragraph [12] above; or
 - (b) if the Authority has not made a determination under paragraph [12] above within three months of the date on which notice given by the licensee was provided to the Authority, the amount of the allowed income adjustment proposed by the licensee in that notice given to the Authority; or
 - (c) in all other cases the value zero, including situations where the Authority has not made a determination under paragraph [12] above within three months of the date on which notice given by the licensee 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 [9(a)] and/or [9(b)] is insufficient to enable the Authority to assess whether additional costs or expenses has occurred and/or the amount of any allowed income adjustment.
14. The Authority's decision in relation to any notice given under paragraph [8] shall be in writing, shall be copied to the licensee and shall be in the public domain.

Formula for a revenue adjustment in respect of an Income Adjusting Event (IAT_t)

15. An income adjusting event in relevant year t may arise from any of the following:
- (a) an event or circumstance constituting force majeure under the STC;

- (b) an event or circumstance resulting from an amendment to the STC not allowed for when allowed transmission owner revenues of the licensee were determined for the relevant year t; and
- (c) 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 [23] of this licence condition,

where the event or circumstance has, for relevant year t, increased or decreased costs and/ or expenses by more than £[1,000,000] (the “STC threshold amount”).

16. 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.
17. A notice provided to the Authority under paragraph [16] shall give particulars of:
 - (a) the event to which the notice relates and the reason(s) why the licensee considers this event to be an income adjusting event;
 - (b) 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;
 - (c) the amount of any allowed income adjustment proposed as a consequence of that event and how this allowed income adjustment has been calculated; and
 - (d) any other analysis or information, which the licensee considers sufficient to enable the Authority and the relevant parties to fully assess the event to which the notice relates.
18. If the Authority considers that the analysis or information provided in sub-paragraphs [17(a)] to [17 (d)] 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.
19. 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.

20. The Authority will make public, excluding any confidential information, any notice of an income adjusting event following its receipt.
21. Any notice submitted to the Authority under paragraph [16] 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:
 - (a) 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
 - (b) the extent to which the disclosure of the information mentioned in sub-paragraph 21(a) is necessary for the purposes of enabling the relevant parties to fully assess the event to which the notice relates.
22. The Authority shall determine (after consultation with the licensee and such other persons as it considers desirable):
 - (a) whether any or all of the costs and/or expenses given in a notice pursuant to paragraph 16 were caused or saved by an income adjusting event;
 - (b) whether the event or circumstance has increased or decreased the relevant costs and/or expenses by more than the STC threshold amount;
 - (c) 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
 - (d) the periods, if any, over which the amounts should apply.
23. In relation to the relevant year t , the allowed income adjustment (IAT_t) shall be:
 - (a) the value determined by the Authority under paragraph [22] above; or

- (b) if the Authority has not made a determination under paragraph [22] 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 [16]; or
- (c) in all other cases zero, including situations where the Authority has not made a determination under paragraph [16] 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] and/or [18] is insufficient to enable the Authority to assess whether an income adjusting event has occurred and/or the amount of any allowed income adjustment.
24. The Authority's decision in relation to any notice given under paragraph [16] shall be in writing, shall be copied to the licensee and shall be in the public domain.
25. 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.

Formula for the Temporary Physical Disconnection Term (TPD_t)

26. For the purposes of paragraph 2, TPD_t shall be an amount equal to the costs incurred in relation to interruption payments made by the national electricity transmission system operator in the licensee's transmission area and charged by the national electricity transmission system operator to the transmission licensee in accordance with the STC within each respective relevant year t-1. Such costs shall include any financing or other costs such as to ensure that the financial position and performance of the licensee is, insofar as is reasonably practicable, the same as if those costs had not been incurred.

Special Condition C4 - Restriction of transmission revenue: Annual revenue adjustments

1. The purpose of this condition is to provide for revenue adjustments to reflect revenue adjustments that relate to the licensee's performance as part of allowed transmission owner revenue.
2. For the purposes of paragraph 3 of special condition C2 (Restriction of transmission revenue: revenue from transmission owner services), PA_t is derived from the following formula:

$$PA_t = TSAI_t - TSAP_t - ICA_t$$

where:

$TSAI_t$ means the transmission system availability incentive, whether of a positive or of a negative value, as derived from the formula set out in paragraph 3;

$TSAP_t$ means the value of encashed performance permits, as determined in accordance with paragraph [xx]; and

ICA_t means the incremental capacity incentive adjustment term, whether of a positive or of a negative value, as derived from the formula set out in paragraph [xx].

Part 1 – Transmission system availability incentive

3. For the purposes of paragraph 2, the term $TSAI_t$ is derived from the following formula:

$$TSAI_t = BR_{t-1} \times TSAF_y$$

where:

$TSAI_t$ in the relevant year t is the transmission system availability incentive performance during incentive period y which shall equate to the relevant year t-1;

BR_{t-1} in the relevant year immediately after the commencement relevant year and in each subsequent relevant year, BR_{t-1} shall take the value of BR_t calculated in accordance with the formula specified in paragraph [3] of special condition C2 (Restriction of Transmission Revenue: revenue from transmission owner services) in respect of the relevant year t-1; and

$TSAF_y$ in any relevant year before the commencement relevant year $TSAF_y$ shall take the value zero and in each subsequent relevant year is the revenue adjustment factor based on the licensee's performance against the transmission system availability incentive during incentive period y, and is derived from the following formula:

if $TSIP_y < TSIT_y$:

$$TSAF_y = \min \left(TSIF_y, TSIF_y \times \frac{\sum_i TSIR_i \times \max\{0, TSIT_{i,y} - \max[TSICOL_{i,y}, TSIP_{i,y}]\}}{\sum_i TSIR_i \times (TSIT_{i,y} - TSICOL_{i,y})} \right)$$

Otherwise, $TSAF_y = 0$

where:

$TSIT_{i,y}$ is the incentivised system availability target (expressed as number of MW hours the system should be capable of delivering) in respect of month i in incentive period y, which has the value derived from the following formula:

$$TSIT_{i,y} = BSTIT_i + TSPP_{i,y}$$

where:

$BSTIT_i$ is the base incentivised availability target for month i as set out against the table in Annex A to this condition.

$TSPP_{i,y}$ is the transmission system performance penalty determined in accordance with paragraph [x].

$TSIP_{i,y}$ is the system availability performance (expressed as number of MW hours the system was capable of delivering) in respect of month i in respect of month i in incentive period y, which has the value derived from the following formula:

$$TSIP_{i,y} = RSIP_{i,y} + SAC_{i,y}$$

where:

$RSIP_{i,y}$ is the reported transmission system availability performance (expressed as number of MW hours the system was capable of delivering) in respect of month i in respect of month i in incentive period y, derived by the licensee in accordance with paragraph [6].

$SAC_{i,y}$ is the number of system availability permits that the licensee intends to use for the purposes of offsetting any financial penalty, determined in accordance with paragraph 5.

TSIR_i is the monthly system availability incentive rate as set out against the table in Annex A to this condition.

TSICOL_{i,y} is the incentivised transmission system availability collar (expressed as number of MW hours to be delivered) in respect of month i in incentive period y, which has the value derived from the following formula:

$$TSICOL_{i,y} = TSIT_{i,y} - \left(\frac{MTSA_{i,y} - BSTIT_{i,y}}{TSIR_i} \right)$$

where:

MTSA_{i,y} is the maximum monthly system capability (expressed as number of MW hours the system is capable of delivering) in respect of month i in incentive period y, being the amount of capacity that the licensee could feasibly achieve if it met its contractual maximum capacity continuously throughout the month i.

TSIF_y in the transmission system availability incentive factor and shall in each incentive period y, take the value of 10 per cent.

min (A,B) means the value equal to the lesser of A and B.

4. For the purposes of paragraph 3, the transmission system performance penalty (TSPP_{i,y}) shall be calculated in accordance with the following formula:

if $TSIP_{i,y-1} < TSICOL_{i,y-1}$ then:

$$TSPP_{i,y} = \min \left((MTSA_{i,y-1} - BSTIT_i), \left[\max\{0, (TSICOL_{i,y-1} - TSIP_{i,y-1})\} + (PPCF_{i,y-1}) \right] \right)$$

otherwise, $TSPP_{i,y} = 0$

where:

$PPCF_{i,y-1}$ in any relevant year before the commencement relevant year $PPCF_{i,y}$ shall take the value zero and the term $PPCF_{i,y-1}$ shall be construed accordingly, thereafter $PPCF_{i,y-1}$ shall be the performance penalty carry forward in respect of month i for incentive period y-1 and shall be calculated in accordance with the following formula:

$$PPCF_{i,y-1} = \max(0, TSICOL_{i,y-2} - TSIP_{i,y-2}) + PPCF_{i,y-2} - TSPP_{i,y-1}$$

5. At the end of month i in the performance year y, the number of performance availability permits available ($PAPB_{i,y}$) to be used for the purposes of determining system availability performance shall be determined in accordance with the following formula:

$$PAPB_{i,y} = PAPE_{i,y} - PAPU_{i,y} - EPAP_{i,y}$$

where:

$PAPE_{i,y}$ shall be the number of performance permits earned up to and including month i of performance year y, being calculated as follows:

$$PAPE_{i,y} = \sum_{j=c}^{y-1} \sum_{z=1}^{12} \max\{0, TSIP_{z,j} - TSIT_{z,j}\} + \sum_{z=1}^i \max\{0, TSIP_{z,y} - TSIT_{z,y}\}$$

$PAPU_{i,y}$ shall be the number of performance permits used by the licensee up to and including month i of performance year y, being calculated as follows:

$$PAPU_{i,y} = \sum_{j=c}^{y-1} \sum_{z=1}^{12} SAC_{z,j} + \sum_{z=1}^i SAC_{z,y}$$

where:

$SAC_{i,y}$ is the number of system availability permits that the licensee intends to use for the purposes of offsetting any financial penalty in month i of performance year y , being an amount such that:

$$SAC_{i,y} \leq PAB_{i,y}; \text{ and}$$

$$SAC_{i,y} \leq TSIT_{i,y} - RSIP_{i,y}$$

$EPAP_{i,y}$ means the number of expired performance permits in month i of performance year y being, those performance permits earned by the licensee up to the performance year $y-6$ and not used, determined as:

$$EPAP_{i,y} = \max(0, PAPE_{i,y-6} - PPU_{i,y})$$

c means the commencement relevant year.

6. For the purposes of this special condition “reported system availability performance” shall mean the maximum level of system availability that was capable of being achieved by the licensee after taking account of system events that have arisen and reduced the amount of capacity that can be made available by the licensee to users of the licensee’s system subject to the following exclusions:

- (a) any reduction in system availability resulting from a de-energisation or disconnection of a user’s equipment under an event of default as defined in the CUSC;
- (b) any reduction in system availability resulting from a user’s request for disconnection in accordance with the Grid Code;
- (c) any reduction in system availability resulting from emergency de-energisation by a user as defined in the CUSC; and
- (d) any reduction in system availability resulting from an emergency de-energisation or disconnection of a user’s equipment necessary to ensure compliance with the Electricity Safety, Quality and Continuity Regulations 2002, as amended from time to time, or to otherwise ensure public safety.

7. Where:

- (a) the licensee considers that any event on the licensee's transmission system that causes a reduction in system availability 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 reduction in system availability that the licensee considers resulted from 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, for the purpose of calculating the reported system availability the constituent data relevant to that event shall be adjusted as specified in that direction.

8. For the purpose of paragraph 7, the 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 having the effect of reduction in system availability and to mitigate its effect (both in anticipation and subsequently).
9. A direction under paragraph 7 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.

10. For the purpose of paragraph 7, an “exceptional event” means an event or circumstance that is beyond the reasonable control of the licensee and which results in or causes a reduction in system availability 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, 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.

Part 2 – Transmission System Availability Incentive: supplementary provisions

11. The licensee shall, by no later than sixteen years after the commencement date, procure, to the satisfaction of the Authority, financial security for the purposes of covering future financial liabilities up to and including the termination relevant year, where:

“financial security” includes a deposit of money, a performance bond or bank guarantee, an insurance policy or a letter of credit.

12. For the purposes of paragraph 11, the licensee shall, by no later than 60 days before the date that is sixteen years after the commencement date, provide to the Authority a notice specifying:
 - (a) the amount of financial security that the licensee intends to procure, being no less than 50 per cent of base transmission revenue;
 - (b) the form of the financial security that the licensee intends to procure; and

- (c) the independent financial institution with which the financial security is to be lodged; and
 - (d) the detailed terms on which the security can be called upon to meet the financial payments that have been incurred by the licensee in respect of the Transmission System Availability Incentive.
13. The Authority shall, by no later than 30 days before the date that is sixteen years after the commencement date, indicate to the licensee whether the proposed arrangements for financial security (as specified in the notice provided by the licensee in accordance with paragraph 12) would be satisfactory. In the event that the Authority considers that the financial security arrangements proposed by the licensee are not satisfactory, the Authority shall set out in writing to the licensee the reasons why the proposed financial security arrangements are not satisfactory and those areas where modifications would be required.
14. For the purposes of paragraph 2, $TSAP_t$ shall take the value zero except in the termination relevant year where it shall be calculated in accordance with the following formula:

$$TSAP_t = \max\left(\frac{\sum_i TSIR_i}{12} \times PAPB_{i,y}, 0\right)$$

Part 3 – Incremental capacity incentive

15. For the purposes of paragraph 2, the incremental capacity incentive adjustment term (ICA_t) is derived from the following formula:

$$ICA_t = ICUA_t + ACA_t$$

Where:

$ICUA_t$ means the capacity utilisation adjustment term, as derived from the formula set out in paragraph [xx]; and

ACA_t means the additional capacity investment adjustment term, as derived from the formula set out in paragraph [xx].

16. For the purposes of paragraph [x], the capacity utilisation adjustment term ($ICUA_t$) shall be derived in accordance with the following formula:

$$ICUA_t = \max (ICRD \times RIT_t \times ICU_t, 0)$$

where:

$ICRD$ is the incremental capacity utilisation revenue driver (in £/kW) and shall take the value of £[xxx] in tender relevant year prices.

RIT_t shall take the value of the term in paragraph 3 of special condition C2 (Restriction of Transmission Revenue: revenue from transmission owner services).

ICU_t shall be the amount capacity made available by the licensee, at the request of the holder of a co-ordination licence in response to an application by a user of the national electricity transmission system for capacity to be made available on the licensee's system, above the amount of capacity that the licensee was contractually required to provide in the commencement relevant year.

17. For the purposes of paragraph [x], the additional capacity investment adjustment term (ACA_t) shall, subject to the capital cost of providing additional capacity above that it was contractually committed to provide during the commencement relevant year, be the revenue adjustment directed by the Authority in accordance with paragraphs [x] and [x].

18. Where the licensee has undertaken additional investment to provide incremental capacity above that it was contractually required to provide in the commencement relevant year it shall:
- (a) submit a notice in writing to the Authority, together with supporting evidence, setting out the revenue adjustment that it considers is required to remunerate the costs that it has incurred in providing that additional capacity, which shall include (without limitation):
 - (i) the amount of additional capacity that the licensee was contractually obliged to make available;
 - (ii) the capital costs that it has incurred, demonstrating that it has incurred costs to no more than 20 per cent of the initial capital cost of the transmission system in providing any additional capacity;
 - (iii) the additional cost of operation and maintenance of that additional capacity; and
 - (iv) the costs of financing the additional investment in the licensee's transmission system.
 - (b) provide such additional information as the Authority may require to make a determination of the appropriate revenue adjustment in accordance with paragraph [x].
19. A notice referred to in paragraph [x] shall be given as soon as is reasonably practicable after the licensee has committed to provide the additional capacity, and, in any event, not later than three months after the end of the relevant year in which it occurs.
20. The Authority shall determine:
- (a) whether the costs that the licensee has incurred were efficiently incurred;
 - (b) the revenue adjustment that is required to remunerate the efficient costs that ought to have been incurred by the licensee;
 - (c) the date from which the adjustment shall apply.

21. In relation to the relevant year t and each subsequent relevant year, the additional capacity investment adjustment term (ACA_t) shall be the value determined by the Authority under paragraph [x] above.

ANNEX A – Performance incentive parameters

1. For the purposes of paragraph [x], the performance availability parameters are set out in the table below:

Month i	1	2	3	4	5	6
TSIR _i						
BSTIT _i						
Month i	7	8	9	10	11	12
TSIR _i						
BSTIT _i						

Special Condition C5: Restriction of transmission charges: adjustments

1. If, in respect of any relevant year, the regulated transmission revenue exceeds the allowed transmission owner revenue by more than [10] per cent of the latter, the licensee shall furnish an explanation to the Authority and in the next following relevant year the licensee shall not affect any increase in charges for the provision of transmission services, the revenue from which is regulated under Special Condition C2 (Restriction of transmission revenue: revenue from transmission owner services), unless it has demonstrated to the reasonable satisfaction of the Authority that the regulated transmission revenue in that next following relevant year would not be likely to exceed the allowed transmission owner revenue in that same relevant year.
2. If, in respect of any two successive relevant years, the sum of the amounts by which the regulated transmission revenue has exceeded the allowed transmission owner revenue is more than [15] per cent of the allowed transmission owner revenue for the second of these relevant years, then in the next following relevant year the licensee shall, if required by the Authority, adjust its charges for the provision of transmission services, the revenue from which is regulated under the Special Condition C2 (Restriction of transmission revenue: revenue from transmission owner services), such that the regulated transmission revenue would not be likely, in the judgment of the Authority, to exceed the allowed transmission owner revenue in that next following relevant year.

Special Condition C6. Provision of Information to the National Electricity Transmission System Operator

1. In the commencement relevant year, the licensee shall, as soon as reasonably practicable,
 - (a) notify the national electricity transmission system operator of its best estimate for the value of $OFTO_t$ in respect of the commencement relevant year; and
 - (b) notify the national electricity transmission system operator of its best estimate for the value of $OFTO_{t+1}$;

where:

$OFTO_t$ means the allowed transmission owner revenue in the relevant year t calculated in accordance with special condition C2 (Restriction of transmission revenue: revenue from transmission owner services).

2. In each relevant year subsequent to the commencement relevant year, the licensee shall, on or before 1 November (or such later date as the Authority may direct),
 - (a) notify the national electricity transmission system operator of its latest best estimate for the value of $OFTO_t$; and
 - (b) notify the national electricity transmission system operator of its latest best estimate for the value of $OFTO_{t+1}$.
3. The licensee shall keep, at all times, under review the estimates notified to the national electricity transmission system operator pursuant to paragraphs 1 or 2. If at any time, the licensee reasonably considers that the values of $OFTO_t$ and/or $OFTO_{t+1}$, notified to the national electricity transmission system operator will be different from the estimates previously notified to the national electricity transmission system operator by more than [5 per cent], the licensee shall notify the national electricity transmission system operator of the revised values for $OFTO_t$ and/or $OFTO_{t+1}$ as soon as reasonably practicable.

4. In each relevant year subsequent to the commencement relevant year, the licensee shall, by 30 June (or such later date as the Authority may direct), provide a statement to the Authority showing:
 - (a) the values of $OFTO_t$ and $OFTO_{t+1}$ notified to the national electricity transmission system operator in accordance with paragraph 1 or paragraph 2 of this condition in the relevant year $t-1$; and
 - (b) any revised values of $OFTO_t$ and $OFTO_{t+1}$ notified to the national electricity transmission system operator in accordance with paragraph 3 of this condition in the relevant year $t-1$.

Special Condition C7 – Duration of the Revenue Restriction Provisions

1. The charge restriction conditions shall apply so long as this licence continues in force but shall cease to have effect (in whole or in part, as the case may be) if the licensee delivers to the Authority a disapplication request made in accordance with paragraph 2 and:
 - (a) the Authority agrees in writing to the disapplication request; or
 - (b) the application of those conditions (in whole or in part) is terminated by notice given by the licensee in accordance with either paragraph 4 or paragraph 5.

2. A disapplication request pursuant to this Condition shall
 - (a) be in writing addressed to the Authority;
 - (b) specify those of the charge restriction conditions (or any part or parts thereof) to which the request relates; and
 - (c) state the date (not being earlier than the date specified in paragraph 3) from which the licensee wishes the Authority to agree that the specified charge restriction conditions shall cease to have effect (“the disapplication date”).

3. Save where the Authority agrees otherwise, no disapplication following delivery of a disapplication request pursuant to this Condition shall have effect earlier than the date which is the later of:
 - (a) a date being not less than 12 months after delivery of the disapplication request; and,
 - (b) the closing date specified in the direction made by the Authority pursuant to paragraph [x] of Special Condition A2 (Revenue Implementation Direction), being not less than 20 calendar years after the commencement of the revenue

stream.

4. If the Authority has not made a reference to the Competition Commission under Section 12 of the Act relating to the modification of the charge restriction conditions before the beginning of the period of 6 months which will end with the disapplication date, the licensee may deliver written notice to the Authority terminating the application of such of the charge restriction conditions (or any part or parts thereof) as are specified in the disapplication request with effect from the disapplication date or a later date.

5. If the Competition Commission makes a report on a reference made by the Authority relating to the modification of the revenue restriction (or any part or parts thereof) specified in the disapplication request and such report does not include a conclusion that:
 - (i) the cessation of such revenue restriction, in whole or in part, operates or may be expected to operate against the public interest; or
 - (ii) that any adverse effects specified by the Competition Commission could be remedied or prevented by such modifications of the relevant conditions as are specified in the report;

the licensee may within 30 days after the publication of the report by the Authority in accordance with Section 13 of the Act deliver to it written notice terminating the application of such revenue restriction (or any part or parts thereof) with effect from the disapplication date or a later date.

Special condition C9 Basis of transmission owner charges

1. The licensee shall as soon as practicable during the commencement relevant year and, in any event, not later than such date as the Authority shall specify prepare a statement approved by the Authority setting out the basis upon which charges will be made for transmission owner services;
2. In addition to, and without prejudice to, the licensee's obligation under paragraph 1, the licensee shall, upon being directed to do so in directions issued by the Authority from time to time for the purposes of this condition and within such period as shall be specified in the directions, prepare a statement approved by the Authority providing that charges for transmission owner services will be made on such basis as shall be specified in the directions and such statement or statements shall:
 - (a) be in such form and contain such detail as shall be necessary to enable the national electricity transmission system operator to make a reasonable estimate of the charges to which it would become liable for the provision of such services;
 - (b) (without prejudice to the foregoing) including such information as shall be specified in the directions.

Each statement prepared in accordance with this paragraph shall, with effect from the date on which it is approved by the Authority or such later date as the Authority shall specify, replace the corresponding statement prepared by the licensee in accordance with paragraph 1 or, as the case may be, this paragraph (as from time to time revised in accordance with paragraph 3) which is in force at such date and the licensee shall, with effect from such date make charges in accordance with the statement (as from time to time revised in accordance with paragraph 3) which has replaced such corresponding statement.

3. The licensee may periodically revise the statements in accordance with paragraphs 1 and 2 and shall, at least once in every year this license is in force, make any necessary revisions to such statements in order that the information set out in the statements shall continue to be accurate in all material respects.

4. The licensee shall send a copy of the statements prepared in accordance with paragraphs 1 and 2, and of each revision of such statements in accordance with paragraph 3, to the Authority. Each such revision shall require to be approved by the Authority and shall not become effective until approved by the Authority.
5. The licensee shall give or send a copy of the statements prepared in accordance with paragraphs 1 and 2 or (as the case may be) of the latest revision of such statements in accordance with paragraph 3 approved by the Authority pursuant to such paragraph to any person who requests a copy of such statement or statements.
6. The licensee may make a charge for any statement given or sent pursuant to paragraph 5 of an amount reflecting the licensee's reasonable costs of providing such a statement, which shall not exceed the maximum amount specified in directions issued by the Authority for the purposes of this condition.

Special Condition C10: Excluded Services

8. There may be treated as excluded services provided by the licensee in its transmission business such services in respect of which charges are made which:
 - (a) do not fall within paragraph 2 of this special condition; and
 - (b) may (subject to paragraph 6) be determined by the licensee as falling under one of the principles set out in paragraphs 3 and 4 of this special condition.
9. No service provided by the licensee as part of its transmission business shall be treated as an excluded service in so far as it relates to the provision of services remunerated under use of system charges including (without prejudice to the foregoing):
 - (a) the transport of electricity;
 - (b) the carrying out of works for the installation of electric lines or electrical plant for the purpose of maintaining or upgrading the licensee's transmission system;
 - (c) the carrying out of works or the provision of maintenance or repair or other services for the purpose of enabling the licensee to comply with conditions 8 and 12, the Electricity Supply Regulations 1988 or any regulations made under section 29 of the Act or any other enactment relating to safety or standards applicable in respect of the transmission business; and
 - (d) the provision, installation and maintenance of any meters, switchgear or other electrical plant ancillary to the grant of use of system.
10. There may be treated as an excluded service charges for the relocation of electric lines or electrical plant and the carrying out of works associated therewith pursuant to a statutory obligation (other than under section 9(2) of the Act) imposed on the licensee.
11. There may with the approval of the Authority be treated as an excluded service any service of a type not above referred to which:
 - (a) consists in the provision of services for the specific benefit of a third party requesting the same; and
 - (b) is not made available by the licensee as a normal part of the transmission business remunerated by use of system charges.

12. Where the Authority is satisfied that in light of the principles set out in paragraphs 2 to 4 inclusive any service treated by the licensee as an excluded service should not be so treated, the Authority shall issue directions to that effect, and such service shall cease to be treated as an excluded service with effect from the date of issue of such directions or such earlier date as may be specified in the directions (being not earlier than the commencement of the relevant year to which the information relating to excluded services last furnished pursuant to the offshore regulatory reporting - regulatory instructions and guidance directed by the Authority pursuant to special condition D1 (Offshore Regulatory Reporting) related, unless such information, or any such information provided earlier, was incorrect or misleading in any material respect, as may be specified in the directions).

Special Condition D1: Offshore Regulatory Reporting

PART A: APPLICATION AND PURPOSE

1. The purpose of this condition is to secure the collection of specified information, to an appropriate degree of accuracy by the licensee so as to enable the Authority to monitor effectively the revenue of the transmission business.

PART B: OFFSHORE REGULATORY REPORTING - REGULATORY INSTRUCTIONS AND GUIDANCE AND SPECIFIED INFORMATION

2. For the purposes of this condition:

“offshore regulatory reporting regulatory instructions and guidance” means the instructions and guidance issued by the Authority for the purposes of this condition as modified from time to time by a direction under paragraph 12 and subject to paragraphs 15 to 17 shall include (without limitation):

- (a) the definition of specified information to be collected pursuant to this condition which for the purposes of paragraph 7 is information relating to:
 - (i) all associated terms used in the derivation of the licensee’s revenue entitlement as defined in the relevant special conditions of the licensee’s transmission licence for purposes of paragraph 7(a) (Audited Price Control Return);
 - (ii) all associate cost terms to reconcile the costs of the licensee to its regulatory accounts for the purposes of paragraph 7(b) (Cost reporting pack);
 - (iii) the associated information and parameters used in the determination of the transmission system availability incentive as defined in special condition C4 (Restriction of transmission revenue: Annual revenue adjustments) for the purposes of paragraph 7 (c); and
 - (iv) the associated information and parameters used in the determination of the incremental capacity incentive as defined in special condition C4 (Restriction of transmission revenue: Annual revenue adjustments) for the purposes of paragraph 7 (d).

- (b) requirements for recording specified information which are reasonably necessary to enable an appropriate auditor to determine the accuracy and reliability of specified information;
 - (c) requirements as to the form and manner in which specified information shall be provided to the Authority (including templates for doing so);
 - (d) requirements as to the form and manner in which specified information shall be recorded and the standards of accuracy and reliability with which it shall be recorded; and
 - (e) requirements as to the timing of the provision of specified information to the Authority in respect of each relevant year.
3. The licensee shall:
- (a) establish and maintain appropriate systems, processes and procedures to measure and record specified information in respect of the commencement relevant year and for each subsequent relevant year and in accordance with the offshore regulatory reporting - regulatory instructions and guidance (including any associated information therein) for the time being in force pursuant to this condition;
 - (b) maintain all systems of control and other governance arrangements that ensure the information collected and reported to the Authority is in all material respects accurate and complete and is fairly presented and that all such systems of control and other governance arrangements are kept under regular review by the directors of the licensee with a view to ensuring that they remain effective for this purpose; and
 - (c) shall provide all such assistance as may be reasonably required to permit the Authority to review such systems from time to time.
4. The licensee shall notify the Authority immediately in the event that it discovers errors in the information or calculations used to derive the information submitted to the Authority under this licence condition.

5. The licensee shall collect the specified information required by the offshore regulatory reporting - regulatory instructions and guidance issued pursuant to this condition from the date on which such offshore regulatory reporting - regulatory instructions and guidance are issued by the Authority.

PART C : INFORMATION TO BE PROVIDED TO THE AUTHORITY

6. The licensee shall comply with the relevant provisions and information requirements of the offshore regulatory reporting - regulatory instructions and guidance issued pursuant to this condition.
7. The licensee shall provide the Authority with:
 - (a) the information specified in the templates for the Audited Price Control Return contained in the revenue reporting regulatory instructions and guidance by no later than 31 July following the end of the relevant year to which such information relates;
 - (b) the information specified in the templates for the Cost reporting pack contained in the revenue reporting regulatory instructions and guidance by no later than 31 July following the end of the relevant year to which such information relates;
 - (c) the information specified in the template for the transmission system availability incentive contained in the revenue reporting regulatory instructions and guidance by no later than 31st July following the end of the relevant year to which the information relates; and
 - (d) the information specified in the template for the incremental capacity incentive contained in the revenue reporting regulatory instructions and guidance by no later than 31st July following the end of the relevant year to which the information relates.

PART D: AUDIT REQUIREMENTS

8. The information referred to in paragraphs 7(a) and 7(b) shall be accompanied by a report addressed to the Authority from the auditors, stating whether in their opinion:

- (a) the information provided in accordance with paragraphs 7 (a) and 7(b) has been properly prepared in accordance with the revenue reporting regulatory instructions and guidance; and
 - (b) the amounts presented are in accordance with the licensee's records which have been maintained in accordance with paragraph 3 of this condition.
9. The licensee shall require that the report from the auditors, referred to in paragraph 8, is accompanied by a letter from the auditors to the Authority detailing the procedures that the auditors have followed in reaching their opinion.
10. For the purposes of paragraph 8, the licensee shall at its own expense enter into a contract of appointment with the auditors, which includes a term requiring that the audit be conducted in accordance with all relevant auditing standards in force on the last day of the relevant year to which the audit relates as would be appropriate.
11. The licensee shall (and must procure, insofar as it is able to do so, that any affiliate or related undertaking of the licensee shall) co-operate fully with the auditors so as to enable them to complete and report to the Authority on any audit carried out in accordance with paragraph 8.

PART E: MODIFICATION TO THE OFFSHORE REGULATORY REPORTING - REGULATORY INSTRUCTIONS AND GUIDANCE

12. Where the Authority considers that the offshore regulatory reporting - regulatory instructions and guidance should be modified in such way as is necessary more effectively to achieve the purposes of this condition, the Authority may, subject to paragraphs 13 and 14, modify the offshore regulatory reporting - regulatory instructions and guidance by issuing a direction to all relevant transmission licensees.
13. Before issuing a direction under paragraph 12, the Authority, by notice given to all relevant transmission licensees, shall:
- (a) state that it proposes to make a modification, and set out the date on which it proposes that this should take effect;
 - (b) set out the text of the modification, the purpose and effect of the modification, and the reasons for proposing it; and

(c) specify the time (not less than 28 days from the date of the notice) within which representations or objections with respect to the proposed modification may be made,

and consider any representations or objections which have been duly made and are not withdrawn, and give reasons for its decision.

14. The Authority may only make such modification with the consent of each licensee to whom such modification relates, provided that such consent may not be unreasonably withheld or delayed by any relevant licensee.
15. The provisions of the offshore regulatory reporting - regulatory instructions and guidance may not exceed what is necessary to achieve the purposes of this condition. Nothing in this condition should require the licensee to produce any documents which it could not be compelled to produce or give evidence in civil proceedings before a court.

Schedule 1 - Specified Area

Great Britain, the territorial sea adjacent to Great Britain and in any Renewable Energy Zone.

where:

Renewable Energy Zone means an area designated [by Order in Council] under section 84(4) of the Energy Act 2004.

Schedule 2: Revocation

1. The Authority may at any time revoke the licence by giving not less than 30 days' notice (24 hours' notice, in the case of a revocation under sub-paragraph 1(f) in writing to the licensee:
 - (a) if the licensee agrees in writing with the Authority that the licence should be revoked;
 - (b) if any amount payable under condition 4 (Payments by Licensee to the Authority) is unpaid 30 days after it has become due and remains unpaid for a period of 14 days after the Authority has given the licensee notice that the payment is overdue - provided that no such notice shall be given earlier than the sixteenth day after the day on which the amount payable became due;
 - (c) if the licensee fails:
 - . to comply with a final order (within the meaning of section 25 of the Act) or with a provisional order (within the meaning of that section) which has been confirmed under that section and (in either case) such failure is not rectified to the satisfaction of the Authority within three months after the Authority has given notice of such failure to the licensee - provided that no such notice shall be given by the Authority before the expiration of the period within which an application under section 27 of the Act could be made questioning the validity of the final or provisional order or before the proceedings relating to any such application are finally determined; or
 - . to pay any financial penalty (within the meaning of section 27A of the Act) by the due date for such payment and such payment is not made to the Authority within three months after the Authority has given notice of such failure to the licensee - provided that no such notice shall be given by the Authority before the expiration of the period within which an application under section 27E of the Act could be made questioning the validity or effect of the financial penalty or before the proceedings relating to any such application are finally determined;
 - (d) if the licensee fails to comply with:
 - . an order made by the Secretary of State under section 56, 73, 74 or 89 of the Fair Trading Act 1973; or
 - . an order made by the court under section 34 of the Competition Act 1998;

(e) if the licensee:

- . has ceased to carry on, or has abandoned, the transmission business;
- . has not commenced carrying on the transmission business within 5 years of the date on which the licence comes into force;

(f) if the licensee:

- . is unable to pay its debts (within the meaning of section 123(1) or (2) of the Insolvency Act 1986, but subject to paragraphs 2 and 3 of this schedule) or has any voluntary arrangement proposed in relation to it under section 1 of that Act or enters into any scheme of arrangement (other than for the purpose of reconstruction or amalgamation upon terms and within such period as may previously have been approved in writing by the Authority);
- . has a receiver (which expression shall include an administrative receiver within the meaning of section 251 of the Insolvency Act 1986) of the whole or any material part of its assets or undertaking appointed;
- . has an administration order under section 8 of the Insolvency Act 1989 made in relation to it;
- . passes any resolution for winding-up other than a resolution previously approved in writing by the Authority; or
- . becomes subject to an order for winding-up by a court of competent jurisdiction;
or

(g) if the licensee is convicted of having committed an offence under section 59 of the Act in making its application for the licence.

2. For the purposes of sub-paragraph 1(f)(i), section 123(1)(a) of the Insolvency Act 1989 shall have effect as if for "£750" there was substituted "£250,000" or such higher figure as the Authority may from time to time determine by notice in writing to the licensee.
3. The licensee shall not be deemed to be unable to pay its debts for the purposes of sub-paragraph 1 (f)(i) if any such demand as is mentioned in section 123(1)(a) of the Insolvency Act 1989 is being contested in good faith by the licensee with recourse to all appropriate measures and

procedures or if any such demand is satisfied before the expiration of such period as may be stated in any notice given by the Authority under paragraph 1.

4. The Authority may at any time revoke the licence by giving not less than 18 months' notice in writing to the licensee, where an offshore generator has provided written advice to the Authority that the assets for which the licensee is licensed are not required beyond the original 20 year revenue stream period.