

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

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

WHEREAS:

1. National Grid Electricity Transmission plc (the "licensee") holds an electricity transmission licence (the "licence") treated as granted pursuant to section 6(1)(b) of the Electricity Act 1989 (the "Act").
2. In accordance with section 11(2) and (3) of the Act, the Gas and Electricity Markets Authority (the "Authority"):
 - (i) gave notice (the "Notice") on 10 June 2011 that it proposed to modify the special conditions of the licence in accordance with the Schedule to the Notice;
 - (ii) published the Notice in the manner it considered appropriate; and
 - (iii) served a copy of the Notice on the licensee.
3. The Authority received five representations in relation to the proposed licence modification. No responses were withdrawn.
4. The Authority has carefully considered the representations made in relation to the proposed licence modification and considers that no amendment is necessary to the Notice in relation to the responses received.

All non-confidential representations made in relation to the proposed licence modification are available free of charge from the Ofgem Research and Information Centre, 9 Millbank, London SW1P 3GE or from the Ofgem website at www.ofgem.gov.uk.

5. The Authority sent a copy of the Notice to the Secretary of State. The Authority did not receive a direction from the Secretary of State not to make the proposed modification before the relevant time specified in the Notice.
6. On 8 July 2011 the licensee gave its written consent to the licence modification proposed in the Schedule to the Notice.
7. Information in relation to the licence modification is contained in the following documents:

"2010/11 Electricity System Operator Review – Preliminary Conclusions from Phase 1", Ofgem, July 2010.

"Electricity SO Incentives Initial Proposals for 1st April 2011", National Grid, November 2010.

"Addendum to the Electricity SO Incentives Initial Proposals for 1 April 2011: Modelling Transmission Constraints", National Grid, December 2010.

"Ofgem's initial comments on National Grid's Electricity System Operator Incentives Initial Proposals", Ofgem, December 2010.

"Electricity SO Incentives Initial Proposals for 1st April: Consultation Report", National Grid, December 2010.

The National Grid documents are available from the National Grid website at www.nationalgrid.com/uk. The Ofgem documents are available from the Ofgem website at www.ofgem.gov.uk.

8. The reasons why the Authority proposes to make the licence modification were published by the Authority in the following document:

"National Grid Electricity Transmission System Operator Incentives from 1 April 2011: Final Proposals Consultation", Ofgem, 10 June 2011.

This document is available free of charge from the Ofgem Research and Information Centre, 9 Millbank, London SW1P 3GE or from the Ofgem website at www.ofgem.gov.uk.

THEREFORE:

In accordance with section 11 of the Act, and with the consent of the licensee, the Authority hereby modifies the licence in accordance with the Schedule to this Modification with effect on and from 00:00 on 1 April 2011.

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

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

Ian Marlee
Partner, GB Markets
Duly authorised on behalf of the Gas and Electricity Markets Authority
19 July 2011

SCHEDULE

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

1. In special condition AA5 (Revenue Restriction Conditions: Definitions):

a) In Paragraph 1:

(i) for “AA5H”, substitute “AA5J”;

(ii) in the definition of balancing services activity revenue restriction substitute “AA5B, AA5C, AA5D and AA5E” with “AA5B, AA5C, AA5D, AA5E, AA5I and AA5J”;

b) in Paragraph 2 for “AA5H”, substitute “AA5J”;

c) in Paragraph 3 for “AA5H”, substitute “AA5J”.

2. In special condition AA5A (Balancing Services Activity Revenue Restriction):

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

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

5. The licensee shall use its best endeavours to ensure that in the period p 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:

$$BXext_p = CSOBM_p + BSCC_p + ET_p - OM_p + IncPayExt_p$$

where:

$BXext_p$ represents the maximum allowed revenue derived in period p from and associated with procuring and using balancing services;

$CSOBM_p$ which represents the cost to the licensee of bids and offers in the balancing mechanism accepted by the licensee in period p less the

total non-delivery charge for that period, is the sum across period p of the values of CSOBM_j (being the system operator BM cashflow for each settlement period j as defined in Table X-2 of Section X of the BSC in force immediately prior to 1 April 2001);

BSCC_p means the costs to the licensee of contracts for the availability or use of balancing services during the period p, excluding costs within CSOBM_p; but including charges made by the licensee for the provision of balancing services to itself in the period p;

ET_p means the amount of any adjustment to be made during the period p in respect of any relevant year prior to period p as provided in paragraph 6;

OM_p means an amount representing the revenue from the provision of balancing services to others during the period p, calculated in accordance with paragraph 7;

IncPayExt_p means an incentive payment for period p calculated in accordance with paragraph 8;

period p means the period 1 April 2011 to 31 March 2013;

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

6. Balancing services activity adjustments

For the purposes of paragraph 5, the term ET_p which relates to prior period adjustments in respect of period p shall mean:

- (a) the costs, whether positive or negative, to the licensee of
 - bids and offers in the balancing mechanism accepted by the licensee in any relevant year before period p less the total non-delivery charge for that period; and

- contracts for the availability or use of balancing services during any relevant year before period p , excluding costs within $CSOBM_p$ for that period, but including charges made by the licensee for the provision of balancing services to itself in that period.

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 $CSOBM_p$ or $BSCC_p$; and

- (b) any amount within the term ET_p 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_p (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 period p 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 that electricity supplier 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 period p 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 $IncPayExt_p$ shall be derived from the following formula:

$$IncPayExt_p = [SF_p (MT_p - IBC_p) + CB_p]$$

where:

SF_p which is a balancing services activity sharing factor in respect of period p, has the value specified either against the value of IBC_p for the period p in the column headed SF_p in the table in paragraph B1 of Part B of Schedule A.

MT_p which is a target for balancing services activity incentivised external costs in respect of period p, has the value specified either against the value IBC_p for period p in the column headed MT_p in the table in paragraph B1 of Part B of Schedule A.

IBC_p which is the cost of balancing services on which the licensee is incentivised during period p, is calculated in accordance with the formula given in paragraph 9.

CB_p which is a balancing services sharing factor offset in respect of period p, has the value either specified against the value of IBC_p for period p in the column headed CB_p in the table in paragraph B1 of Part B of Schedule A.

9. For the purposes of paragraph 8, the term IBC_p in respect of period p shall be calculated in accordance with the following formula:

$$IBC_p = CSOBM_p + BSCC_p + TLIC_p - RT_p - OM_p - BS_p$$

where:

$TLIC_p$ which is the licensee's incentive performance measure (which may be positive or negative) for minimising the volume of transmission losses and,

has the value calculated in accordance with paragraph B3 of Part B of Schedule A.

RT_p means the amount of any allowed income adjustments given by paragraph 12 (b) in respect of either the relevant year in which the income adjusting event occurred or period p.

BS_p means any costs recovered via the term $BSCC_p$ in respect of feasibility studies and capital contributions for Black Start in accordance with Special Condition AA5J.

Black Start shall have the same meaning as is given to that term in the Grid Code.

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

(a) An income adjusting event is 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 (as defined in Special Condition AA5 (Revenue Restriction Conditions: Definitions)); and
- (iv) an event or circumstance other than listed above which is, which is, in the opinion of the Authority, an income adjusting event and approved by it as such in accordance with paragraph 12(a) of this special licence condition,

where the income adjusting event or circumstance has, for either the relevant year in which the income adjusting event occurred or period p, increased or decreased the value of IBC_t (bearing the meaning of that term in this licence as at 31 March 2011) or IBC_p 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 either the relevant year in which the income adjusting event occurred or period p, 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:

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

Table 2:

| 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 the relevant year in which the income adjusting event occurred or period p, 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 the relevant year in which the income adjusting event occurred or period p, 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) or 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 subparagraphs 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 or period p.
- (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 paragraph 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_p 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 period p , the allowed income adjustment (RT_p) 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."

3. For special condition AA5B (not used) substitute:

“Special Condition AA5B: Restriction on contracting with BSC parties

1. The licensee shall not enter into any contract with a BSC party for the provision of balancing services for the management of transmission constraints under which that BSC party shall agree with the licensee any condition to be applied to the prices at which it will submit offers or bids in the balancing mechanism in respect of any BM unit.
2. This prohibition shall continue in force until 31 March 2013 unless the Authority gives notice to the licensee that it shall end on an earlier date.

3. In this condition:

“BM unit” has the meaning given in the BSC.

“BSC”, “BSC party” and “balancing services” have the meaning given in standard condition C1 (Interpretation of Section C); and

“transmission constraint” has the meaning given in standard condition C16 (Procurement and use of balancing services); ”

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

(a) in paragraph (4)(ii) for “31 March 2011”, substitute “31 March 2013”;

(b) in paragraph 4(B) for “1 April 2010”, substitute “1 April 2011”.

5. For special condition AA5I (Review of methodology and requirement to develop a balancing services activity revenue restriction on external costs covering two or more relevant years) substitute:

“Special Condition AA5I: Requirement to conduct a Supplementary Review to develop and undertake a Scheme of Work to facilitate continuing development of a longer term balancing services activity restriction on external costs

1. The licensee shall cooperate with and assist the Authority and any Consultants for the purpose of undertaking Phase 1 of the Supplementary Review and shall prepare and submit a draft Scheme of Work to the Authority by 1 September 2011.
2. The licensee shall make any consequential amendments to the draft Scheme of Work as may reasonably be directed by the Authority (after consultation with the Consultants) by 1 October 2011 or such date as the Authority may reasonably direct.
3. Unless the Authority directs otherwise, the licensee shall undertake Phase 2 of the Supplementary Review based on the Scheme of Work produced in Phase 1 of the Supplementary Review, within the timescales set out in the Scheme of Work or such other timescale as the Authority may reasonably direct.
4. Unless the Authority directs otherwise, the licensee shall cooperate with and assist the Authority and any Consultants to undertake Phase 3 of the Supplementary Review

within eight calendar weeks of the completion of Phase 2 of the Supplementary Review or such other timescale as the Authority may reasonably direct.

5. The licensee shall cooperate with and assist the Authority in selecting and appointing Consultants for the purpose of conducting the Supplementary Review. The scope and content of any contract in respect of work to be undertaken during the Supplementary Review by any Consultants shall be:

- (a) proposed by the Authority;

- (b) reviewed by the licensee;

- (c) approved by the Authority, subject to any modification (if any) as it may reasonably require, having taken into account any representations by the licensee.

6. Any contract between the Authority, the licensee and any Consultants shall make provision for payment by the licensee in respect of any work undertaken by the Consultants during the Supplementary Review. Where consultants are to be appointed for the purposes of this condition, the licensee's performance of its obligations to cooperate with the consultants shall be conditional on the Consultants having entered into agreement with the licensee to maintain confidentiality and preserve the intellectual property of the licensee on reasonable terms.

7. The licensee shall comply with all the requirements of this condition in a timely fashion and in good faith.

8. This special condition is without prejudice to any other requirement in this licence for the licensee to monitor, and update as appropriate, its modelling methodologies for the balancing services activity revenue restriction referred to in paragraph B2(a) of Schedule A to Special Condition AA5A: Supplementary Provisions of the Charge Restriction Conditions.

9. For the purposes of this condition:

“Consultants” means any persons appointed jointly by the Authority and the licensee for the purpose of conducting the Supplementary Review in accordance with this condition;

“The Supplementary Review” means any work undertaken in respect of Phase 1 of the Supplementary Review, Phase 2 of the Supplementary Review and Phase 3 of the Supplementary Review;

“Phase 1 of the Supplementary Review” means the preparation and submission to the Authority by the licensee, together with the Consultants, of a draft Scheme of Work, the review of that draft Scheme of Work by the Authority (after consultation with the Consultants) and the subsequent amendment by the licensee of the draft Scheme of Work as a result of a direction made by the Authority pursuant to paragraph 2 of this condition;

“Phase 2 of the Supplementary Review” means the undertaking of the Scheme of Work arising from Phase 1 of the Supplementary Review by the licensee and submission to the Authority of the results of the Scheme of Work;

“Phase 3 of the Supplementary Review” means the examination by the Authority, together with the Consultants, of the results of the Scheme of Work, to determine its appropriateness for the further development of a balancing services activity revenue restriction on external costs covering two or more relevant years;

“Scheme of Work” means a specification of work for the purposes of further developing a balancing services activity revenue restriction on external costs covering two or more relevant years, in particular to facilitate greater alignment with other regulatory decisions, particularly RII0–T1. The Scheme of Work shall comprise an approach and timetable for the development, or further development, of a methodology, including inputs, assumptions and modelling methodologies, together with an approach for the validation of models, to facilitate the further development of the licensee’s methodologies for a balancing services activity revenue restriction on external costs covering two or more relevant years. The Scheme of Work should include, but should not be limited to, developments associated with:

- (a) the licensee’s modelling of transmission constraints, in particular with respect to:
 - (i) the flow of electricity onto and over the national electricity transmission system, specifically progression from the use of a model based on the transfer capability of boundaries between geographical areas of the national electricity transmission system towards the use of a nodal model which represents the capability of the assets comprising the national electricity transmission system;
 - (ii) the submission by BSC Parties of offers and bids made in the balancing mechanism;

(iii) the amount of headroom, being additional generation capacity of BM Units which are synchronised with the national electricity transmission system that those BM Units have from time to time, but which the licensee is unable to utilise to manage the flow of electricity onto and over the national electricity transmission system because those BM Units are located in an area of the national electricity transmission system which is affected by a transmission constraint;

(iv) hydro generation;

(b) the licensee's modelling of transmission losses (being the difference between the quantities of electricity delivered to the national electricity transmission system and the quantity taken from the national transmission system); and

(c) the treatment of wind generation in respect of its effect on the operation of the transmission system;

“BM Unit” has the meaning given in the BSC;

“RIIO-T1” means the revenue restriction and incentive arrangements to be applicable to the licensee for the relevant years from 2013 to 2021; and

“transmission constraint” has the meaning given in standard condition C16 (Procurement and use of balancing services).”

6. Insert the following new special licence condition:

“Special Condition AA5J: Requirement to develop the balancing services activity revenue restriction in relation to external costs for new Black Start service provision

1. The licensee shall:

(a) by 31 December 2011 or such later date as may be agreed in writing by the Authority, prepare and submit to the Authority a draft statement setting out its approach to determining and procuring an economic and efficient level of Black Start service provision on an ongoing basis; make any consequential amendments to the draft statement as may reasonably be directed by the Authority by 29 February 2012; and by 31 March 2012 or such later date as may be agreed in writing by the Authority publish the final statement on its website; and

(b) by 31 March 2012 or such later date as may be agreed in writing by the Authority review the mechanism by which the value of $BSTC_p$ may be

determined from 1 April 2013 so that it continues to provide an appropriate incentive to the licensee to procure an economic and efficient level of Black Start service provision and takes account of the efficiently incurred costs of the licensee's procurement of Black Start services from new providers.

2. In meeting its obligations pursuant to paragraph 1 of this condition, the licensee shall, wherever it is appropriate to do so, consult with interested parties.
3. In respect of the period 1 April 2011 to 31 March 2013, any payments to new providers in respect of feasibility studies and capital contributions recovered by the licensee in accordance with the term BSCC_p shall be incurred in accordance with the final statement produced by the licensee pursuant to paragraph 1(a) of this condition. The amount of any payments to new providers in respect of feasibility studies and capital contributions to be recovered via BSCC_p shall be directed by the Authority and limited in total to the amount agreed between the licensee and the Authority.

4. In this condition:

“Black Start” shall have the same meaning as is given to that term in the Grid Code;

“BSCC_p” shall bear the meaning given in Special Condition AA5A (Balancing Services Activity Revenue Restriction);

“BSTC_p” shall bear the meaning given in Schedule A to Special Condition AA5A (Supplementary Provisions of the Charge Restriction Conditions);

“capital contributions” means any capital payments made by the licensee to a new provider in order to facilitate the provision of Black Start services by the new provider;

“feasibility studies” means work undertaken by the licensee and any potential new provider in order to assess the ability of the potential new provider to provide Black Start services; and

“new provider” means an authorised electricity operator or other provider in respect of a generation set or other asset in respect of which the licensee has not entered into any agreement to provide Black Start services prior to the date on which this condition takes effect in this licence.”

7. In Schedule A to special condition AA5A (Supplementary Provisions of the Charge Restriction Conditions):

For PART B (Terms used in the balancing services activity revenue restriction), substitute:

“PART B

Terms used in the balancing services activity revenue restriction

- B1. For the purpose of paragraph 8 of Part 2(i) of special condition AA5A (Balancing Services Activity Revenue Restriction), the terms MT_p , SF_p and CB_p shall be selected against the appropriate value of IBC_p (which shall be determined in accordance with paragraph 9 of special condition AA5A) from the following table:

| IBC_p (£million) | MT_p (£million) | SF_p | CB_p (£million) |
|--|-------------------------------------|--------------------------|-------------------------------------|
| $IBC_p <$ (Incentive Target Cost – 205) | 0 | 0 | 50 |
| $(\text{Incentive Target Cost} - 205) \leq IBC_p <$ (Incentive Target Cost – 5) | Incentive Target Cost – 5 | 25% | 0 |
| $(\text{Incentive Target Cost} - 5) \leq IBC_p <$ (Incentive Target Cost + 5) | IBC_p | 0 | 0 |
| $(\text{Incentive Target Cost} + 5) \leq IBC_p <$ (Incentive Target Cost + 205) | Incentive Target Cost + 5 | 25% | 0 |
| $IBC_p \geq$ (Incentive Target Cost + 205) | 0 | 0 | 50 |

For the purposes of this paragraph B1, Incentive Target Cost (in £ million) in respect of period p shall be calculated in accordance with the following formula:

$$\text{Incentive Target Cost}_p = \text{Modelled Target Costs}_p + \text{BSTC}_p$$

where:

Modelled Target Costs_p means the target cost (in £ million) to the licensee of procuring and using balancing services (being the external costs of the

balancing services activity) derived in accordance with the methodologies referred to in paragraph B2 below. The models and data used by the licensee to determine Modelled Target Costs as agreed between the Authority and the licensee in respect of period p; and

BSTC_p

means the target cost for the licensee for black start in respect of period p, which shall have the value of £40 million.

In respect of any period commencing on or after 1 April 2013, the terms MT_p, SF_p and CB_p shall be set to zero.

B2. (a) The licensee shall, in respect of period p, establish the following methodologies for determining Modelled Target Costs and the transmission losses reference price (TLRP for the purposes of paragraph B3 below) and such methodologies as approved by the Authority:

- a methodology for determining the ex-ante or ex-post treatment of modelling inputs;
- a methodology for the modelling of constraint costs; and
- a methodology for the modelling of energy costs.

(b) If the licensee considers that any modification of one or more of the methodologies referred to in sub-paragraph B2 (a) is required to more closely reflect the efficient level of costs to the licensee of procuring and using balancing services, the licensee will review the methodologies prepared pursuant to sub-paragraph B2 (a) and promptly seek to establish any revised methodology or methodologies required to effect the required modification and such revised methodology or methodologies shall be approved by the Authority.

(c) Except where the Authority directs otherwise, before any revision of any methodology referred to in sub-paragraph B2 (a) the licensee shall, pursuant to paragraph B2 (b) :

- (i) send a copy of the proposed revisions to the Authority and to any person who asks for one;

- (ii) consult BSC parties on the proposed revisions and allow them a period of not less than 28 days in which to make representations (“the consultant period”);
 - (iii) submit to the Authority within seven (7) days of the close of the consultation period setting out:
 - the revisions originally proposed;
 - the representations (if any) made to the licensee;
 - any changes to the revisions; and
 - (iv) where the Authority directs that any of sub-paragraphs (i), (ii) and / or (iii) not apply, comply with such other requirements as are specified in the direction.
- (d) The licensee shall not revise any methodology referred to in paragraph B2 (a) until after the expiry of 28 days from the date on which the Authority receives the report referred to in sub-paragraph B2 (c) (iii) unless prior to such date the Authority either:
- (i) directs the licensee to make the revisions on an earlier date; or
 - (ii) directs the licensee not to make the revision.
- (e) The licensee shall publish (in such manner as the Authority may approve from time to time) the methodologies prepared pursuant to sub paragraph B2 (a) and any revision thereof.

B3. For the purpose of paragraph 9 of Part 2(i) of special condition AA5A (Balancing Services Activity Revenue Restriction), the term $TLIC_p$ shall be calculated in accordance with the following formula:

$$TLIC_p = 0 \text{ when } -0.6TWh < \sum_{j^p} (TL_j - TLT_j) < 0.6TWh$$

$$TLIC_p = \left(\sum_{j^p} [TL_j - TLT_j] + 0.6TWh \right) \times TLRP \text{ when}$$

$$\sum_{jp} [TL_j] < \left(\sum_{jp} [TLT_j] - 0.6TWh \right)$$

otherwise:

$$TLIC_p = \left(\sum_{jp} [TL_j - TLT_j] - 0.6TWh \right) \times TLRP$$

where:

TL_j which is the volume of transmission losses, is given by the sum of BM unit metered volumes (as from time to time defined in the BSC) during the settlement period j for all BM units (as from time to time defined in the BSC), being the difference between the quantities of electricity delivered to the GB transmission system and the quantity taken from the GB transmission system during that settlement period;

$TLRP$ which is the transmission losses reference price, shall in respect of each settlement period during period p have the value derived in accordance with the methodology for the modelling of energy costs established pursuant to paragraph B2;

TLT_j which is the target volume of transmission losses, shall in respect of each settlement period during period p be calculated in accordance with the following formula:

$$TLT_j = \frac{TLT_p}{SP_p}$$

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

where:

TLT_p is the target volume of transmission losses in period p, shall have the value in megawatt hours of 8,900,000;

SP_p is the total number of settlement periods in period p.

B4. Not used.

B5. For the purpose of paragraph 15B of Part 2(ii) of special condition AA5A, the term CSF_{Mt} shall have the value in respect of each month M of relevant year t:

$$(a) \quad CSF_{Mt} = 0.4 \quad \text{when} \quad 0 \leq \left[0.4 \, CP_{Mt} \right] < \left[\pounds 250,000 \left(1 + \frac{IRPI_t}{100} \right) \right]$$

$$(b) \quad CSF_{Mt} = 0 \quad \text{otherwise}$$

where:

$IRPI_t$ shall have the meaning ascribed to it in paragraph 15A of special condition AA5A.

B6. For the purposes of paragraph 15B of Part 2(ii) of special condition AA5A, the term OS_{Mt} shall have the value in respect of each month M of relevant year t:

$$(i) \quad OS_{Mt} = 0 \quad \text{when} \quad CSF_{Mt} > 0$$

$$(ii) \quad OS_{Mt} = \pounds 250,000 \left(1 + \frac{IRPI_t}{100} \right) \quad \text{when} \quad CSF_{Mt} = 0$$

$IRPI_t$ shall have the meaning ascribed to it in paragraph 15A of special condition AA5A

B7. For the purposes of paragraph 15B of Part 2(ii) of special condition AA5A, the terms $IUSF_t$ and $IDSF_t$ in respect of relevant year t shall be derived from the following tables:

| | Relevant year | | | | | |
|----------|---------------|---------|---------|---------|---------|---------|
| Variable | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
| $IUSF_t$ | 0.2 | 0.25 | 0.25 | 0.15 | 0.25 | 0.25 |

| | Relevant year | | | | | |
|----------|---------------|---------|---------|---------|---------|---------|
| Variable | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
| $IDSF_t$ | 0.2 | 0.25 | 0.15 | 0.15 | 0.25 | 0.25 |