

TRANSMISSION LICENCE OF NATIONAL GRID COMPANY PLC

ELECTRICITY ACT 1989
SECTION 6(1)(b)

ELECTRICITY TRANSMISSION LICENCE

FOR

THE NATIONAL GRID COMPANY PLC

PART I. TERMS OF THE LICENCE

1. This licence, treated as granted under section 6(1)(b) of the Electricity Act 1989 ("the Act"), authorises The National Grid Company plc (a company registered in England and Wales under company registration number 2366977) ("the licensee") whose registered office is situated at National Grid House, Kirby Corner Road, Coventry CV4 8JY, to participate in the transmission of electricity to premises in the area specified in Schedule 1 during the period specified in paragraph 3 below, subject to -
 - (a) the standard conditions of electricity transmission licences referred to in-
 - (i) paragraph 1 of Part II below, which shall have effect in the licence; and
 - (ii) paragraph 2 of Part II below, which shall only have effect in the licence if brought into effect in accordance with the provisions of standard conditions A2 and A3, subject to such amendments to those conditions, if any, as set out in Part III below (together "the conditions");
 - (b) the special conditions, if any, set out in Part IV below ("the special conditions"); and
 - (c) such Schedules hereto, if any, as may be referenced in the conditions, the special conditions or the terms of the licence.
2. This licence is subject to transfer, modification or amendment in accordance with the provisions of the Act, the special conditions or the conditions.
3. This licence, unless revoked in accordance with Schedule 2, shall continue until determined by not less than 25 years' notice in writing given by the Authority to the licensee.
4. The provisions of section 109 (1) of the Act (Service of documents) shall have effect as if set out herein and as if for the words "this Act", there were substituted the words "this licence".
5. Without prejudice to sections 11 and 23(1) of the Interpretation Act 1978, Parts I to IV inclusive of, and the Schedules to this licence shall be interpreted and construed in like manner as an Act of Parliament passed after the commencement of the Interpretation Act 1978.
6. References in this licence to a provision of any enactment, where after the date of this licence -
 - (a) the enactment has been replaced or supplemented by another enactment, and

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- (b) such enactment incorporates a corresponding provision in relation to fundamentally the same subject matter,

shall be construed, so far as the context permits, as including a reference to the corresponding provision of that other enactment.

This licence was amended and restated by a licensing scheme made by the Secretary of State pursuant to Part II of Schedule 7 to the Utilities Act 2000 on 28 September 2001.

PART II. THE STANDARD CONDITIONS

7. Standard conditions in effect in this licence

| Section A | Section B |
|-----------------------|------------------------|
| Standard Condition A1 | Standard Condition B1 |
| Standard Condition A2 | Standard Condition B2 |
| Standard Condition A3 | Standard Condition B3 |
| Standard Condition A4 | Standard Condition B4 |
| | Standard Condition B5 |
| | Standard Condition B6 |
| | Standard Condition B7 |
| | Standard Condition B8 |
| | Standard Condition B9 |
| | Standard Condition B10 |
| | Standard Condition B11 |
| | Standard Condition B12 |
| | Standard Condition B13 |
| | Standard Condition B14 |

| Section C | |
|------------------------|------------------------|
| Standard Condition C1 | Standard Condition C12 |
| Standard Condition C2 | Standard Condition C13 |
| Standard Condition C3 | Standard Condition C14 |
| Standard Condition C4 | Standard Condition C15 |
| Standard Condition C5 | Standard Condition C16 |
| Standard Condition C6 | Standard Condition C17 |
| Standard Condition C7 | Standard Condition C18 |
| Standard Condition C8 | Standard Condition C20 |
| Standard Condition C9 | Standard Condition C21 |
| Standard Condition C10 | Standard Condition C22 |
| Standard Condition C11 | Standard Condition C23 |

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8. Standard conditions not in effect in this licence

| Section D | |
|------------------------|------------------------|
| Standard Condition D1 | Standard Condition D5 |
| Standard Condition D2 | Standard Condition D6 |
| Standard Condition D3 | Standard Condition D12 |
| Standard Condition D4A | Standard Condition D15 |
| Standard Condition D4B | |

Note: A copy of the current standard conditions of electricity transmission licences can be inspected at the principal office of the Authority. The above lists are correct at the date of this licence but may be changed by subsequent amendments or modifications to the licence. The authoritative up-to-date version of this licence is available for public inspection at the principal office of the Authority.

Special Condition D2: Restriction on Transmission Network Revenue

Transmission Network Revenue Restriction

9. The licensee shall use its best endeavours to ensure that in any relevant year transmission network revenue shall not exceed the maximum revenue which shall be calculated in accordance with the formula given in paragraph 2 below.

Formula for Transmission Network Revenue Restriction

10. In respect of the relevant year commencing 1 April 2012 and each subsequent relevant year t, maximum revenue shall be calculated in accordance with the following formula:

Comment [W1]: Date updated

where:

TO_t means maximum revenue in the relevant year t;

PR_t means base transmission revenue which, shall in respect of the relevant year commencing 1 April 2012 be calculated as:#

$$PR_t = RBT \times RPIF_t$$

where:

RBT shall take the value £xm (being in 2009/10 prices); and

Comment [W2]: Figures will be in 2009/10 prices

$RPIF_t$ is the price index adjustment for the relevant year t, and in the relevant year commencing 1 April 2009 shall take the value of 1 and in each subsequent relevant year shall be derived from the following formula:

Comment [W3]: Updated approach to RPI indexation. This is explained in the accompanying informal licence drafting consultation

$$RPIF_t = RPI_{t-2} \times (1 + GRPI_{t-1,s}) \times (1 + GRPI_{t,s})$$

where:

$$RPI_{At} = RPI_t / RPI_{2009-10}$$

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where:

RPI_t means the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months from April to March in Formula Year t where Retail Prices Index Forecast Growth Rate means:

(a) the growth rate as defined as the “New forecasts (marked *)” in the HM Treasury “Forecasts for the UK Economy” publication, published in the November of each year; or

(b) if in any year the HM Treasury does not publish that growth rate, or changes the basis for calculating that growth rate, the Authority will, after consultation with the licensees, determine an appropriate index to be used.

RPI2009-10 means the arithmetic average of the Retail Prices Index published or determined with respect to each of the twelve months from April 2009 to March 2010 where:

$$GRPIF_t = 0.75 * GRPIF_c + 0.25 * GRPIF_{c+1}$$

$$GRPIF_{t-1,s} = 0.75 * GRPIF_{c-1} + 0.25 * GRPIF_c$$

where:

GRPIF_c means the Retail Prices Index Forecast Growth Rate for the calendar year c and where c is the calendar year 2012. This information is taken from the November 2011 edition of the HM Treasury publication “Forecasts for the UK Economy”.

TIRG_t means, for each TIRG relevant year t, the aggregate of the annual revenue allowances for each transmission investment project specified in annex A to special condition D3 (Adjustment to the Transmission Network Revenue Restriction due to Transmission Investment for Renewable Generation) and shall be calculated in accordance with that special condition;

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

Note: Consolidated conditions are not formal Public Register documents and should not be relied on.

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pass through items as derived in accordance with special condition D4 (Pass Through Items);

IP_t means incentive revenue adjustment term, whether of a positive or of a negative value, calculated for the relevant year t in accordance with special condition D5 (Incentive Payments);

$CxIncRA_t$ means the capital expenditure incentive revenue adjustment term, whether of a positive or of a negative value, calculated in accordance with special condition D9 (Capital Expenditure Incentive and Safety Net);

IE_t means the allowance made in respect of the relevant year t representing the sum of the estimated costs incurred by the licensee in that relevant year in association with the issuance of new equity and the true up where investment levels during the previous price controls were different from forecast and shall take the value set out below:

Comment [W4]: Definition has been updated, as per the informal licence drafting consultation this will only derive the revenue adjustment for the rollover year

Comment [W5]: Updated as discussed in the accompanying informal licence consultation

| <u>IE_t in the Relevant Year commencing 1 April</u> | <u>2012</u> |
|--|------------------------|
| National Grid Electricity Transmission plc | Nil |
| Scottish Hydro-Electric Transmission Ltd | £3,100,000 * $RPIF_t$ |
| SP Transmission Ltd | -£3,160,000 * $RPIF_t$ |

DIS_t means the difference (whether of a positive or negative value) between:

- (a) the total amount charged to the licensee in relevant year $t-1$ by Scottish Hydro-Electric Transmission Ltd and SP Transmission plc in respect of Site-Specific Charges (as such charges are defined in Schedule Ten of the STC); and
- (b) the total income recovered by the licensee in respect of excluded services in relevant year $t-1$ from customers in the

respective transmission areas of each of Scottish Hydro-Electric Transmission Ltd and SP Transmission plc.

LC_t means the revenue adjustment term, whether of a positive or of a zero value, made in the relevant year commencing 1 April 2013 in respect of the full recovery of efficiently incurred logged up costs (adjusted for financing costs) as specified in paragraph 3 of this condition.

Comment [W6]: This has been revised to allow a return on logged up costs in 2013, as per logged up costs in IP – page 20

TS_t means the difference, whether of a positive or of a negative value, between:

- (a) the total amount charged to the licensee in relevant year t-1 by Scottish Hydro-Electric Transmission Ltd, SP Transmission plc, in respect of transmission owner final sums (as such charges are defined in schedule nine of the STC); and
- (b) an amount equal to the income received by the licensee in the relevant year t-1 in respect of users who terminate relevant bilateral agreements for connection and/or access rights to the GB transmission system in the respective transmission areas of each of Scottish Hydro-Electric Transmission Ltd, SP Transmission plc prior to commencing use of the GB transmission system (for the avoidance of doubt, including any amounts that are treated as capital contributions);

TOInc_t means any adjustments to allowed transmission owner revenue reflecting changes to average asset values for Transmission Investment Incentive Projects under the provisions of special condition D11.

Comment [W7]: Definition updated to reflect the approach currently under consultation to include TII revenue in the base revenue term PRT. As such the only revenue derived through the term TOInc during the rollover year will be due to asset value adjusting events: http://www.ofgem.gov.uk/Networks/Trns/ElecTransPolicy/CriticalInvestments/InvestmentIncentives/Documents1/111011_TIIpolicyframework.pdf

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

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

where:

AR_{t-1} means, subject to paragraph 3 of special condition D6 (Adjustments to Transmission Network Revenue), transmission network revenue, in respect of the relevant year t-1 provided that in calculating AR_{t-1} for the purpose of K_t no account shall be taken of any positive or negative revenue in respect of the provision of transmission network services in any relevant year preceding t-1 other than such revenue as it is in the reasonable opinion of the Authority reasonable and appropriate to take into account;

TO_{t-1} means the maximum revenue in the relevant year t-1

Comment [W8]: Removed definitions in place for 2007.

I_t means the average specified rate as defined in special condition D1 (Definitions); and

PI_t means the penalty interest rate in relevant year t which is equal to, where (AR_{t-1} - TO_{t-1}) has a positive value and transmission network revenue in relevant year t-1 exceeds the maximum revenue in relevant year t-1 by more than 2.75 per cent, the value four, otherwise is equal to the value zero.

11. For the purposes of paragraph 2, LC_t shall comprise the capital expenditure and operating expenditure costs incurred in the period 1 April 2007 to 31 March 2012, and reported to the Authority in accordance with standard condition B15 (Price Control Review Information), by the licensee against the following cost categories:

Comment [W9]: As per IP page 20 we will not allow any costs to log up during the rollover year – with the exception of CNI costs which will be handled via a separate mechanism

- (a) underground cable tunnels up to a cap of £60,000,000 (in 2004/05 values);
- (b) upgrading of operational telecommunication systems resulting from the introduction of BT's 21st Century Networks programme;

subject to the licensee satisfying the Authority that such costs have been efficiently incurred.

Special Condition D4: Pass Through Items

Comment [W10]: The current set of pass through items will continue to be passed through – IP page 21.

1. For the purposes of paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue), in each relevant year t , PT_t shall be derived in accordance with the following formula:

$$PT_t = TSP_t + TSH_t + TOFTO_t + OFET_t + LF_t + RB_t - TSR_t + ITC_t + Term_t + TPD_t$$

where:

- TSP_t means the amount specified to the licensee by SP Transmission Ltd or any successor company in relation to relevant year t pursuant to its transmission licence;
- TSH_t means the amount specified to the licensee by Scottish Hydro-Electric Transmission Ltd or any successor company in relation to relevant year t pursuant to its transmission licence;
- $TOFTO_t$ means the total of the revenue amounts specified to the licensee by those offshore transmission owners in relation to the relevant year t pursuant to their transmission licences;
- $OFET_t$ means an amount equal to the payments made in aggregate by the licensee to electricity distributors with respect to charges for use of the electricity distribution systems by offshore generating stations connected to those systems via embedded transmission systems.
- LF_t means the revenue adjustment term, whether of a positive or of a negative value, calculated in the relevant year t in respect of licence fee payments as derived from the formula set out in paragraph 2;
- RB_t means the revenue adjustment term, whether of a positive or of a negative value, calculated in the relevant year t in respect of non-domestic rates as derived from the formula set out in paragraph 3;
- TSR_t means the revenue adjustment term, whether of a positive or of a negative value, calculated in the relevant year t in respect of revenue earned by the licensee for tower space rental as derived from the formula set out in paragraph 6;

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ITC_t means an amount reported by the licensee in relation to relevant year t in respect of the direct costs arising from the participation by Great Britain in any European Union inter-TSO compensation scheme, where the Authority has approved the participation in that scheme in respect of one or more relevant years;

$Term_t$ means an amount equal to the income received by the licensee in the relevant year t in respect of users who terminate relevant bilateral agreements for connection and /or access rights to the national electricity transmission system prior to commencing use of the national electricity transmission system (for the avoidance of doubt, net of any amounts that are treated as capital contributions); and

TPD_t means the temporary physical disconnection term and shall be determined in accordance with paragraphs 7 to 8.

Formula for the Licence Fee Revenue Adjustment

2. For the purposes of paragraph 1, LF_t shall be calculated in accordance with the following

formula:

$$LF_t = LP_t - LA_t$$

where:

LP_t means an amount equal to the payments made by the licensee, in respect of relevant year t, in accordance with its obligations set out in standard licence condition A4 (Payments to the Authority) (being for the avoidance of doubt, in pounds sterling in money of the day);

LA_t is derived from the following formula:

$$LA_t = PF_t \times RPIF_t$$

where:

PF_t is the amount of the licence fee payments allowance for the relevant year t (in 2009/10 prices) as set out:

| | |
|----------|------|
| Relevant | 2012 |
|----------|------|

Comment [W11]: Reference to £13,200,000 adjustment in 2007 has been removed

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| | |
|------------------------------------|----|
| year t commencing on 1 April | |
| PF _t | £X |

Comment [W12]: Ex-ante licence fee allowance to be added in line with that determined in Final proposals

RPIF_t shall take the same meaning as given in paragraph 2 of special condition D2 (Restriction of transmission charges: revenue from transmission owner services)

I_t means the average specified rate as defined in special condition D1 (Definitions).

Formula for the Non-domestic rates Revenue Adjustment

3. For the purposes of paragraph 1, subject to paragraph 4 below, RB_t is an amount calculated in accordance with the following formula:

$$RB_t = (RP_t - RA_t)$$

where:

RP_t is the amount payable by the licensee, in respect of the relevant year t, in respect of non-domestic rates;

RA_t is the non-domestic rates allowance, and is derived from the following formula:

$$RA_t = RV_t \times RPIF_t$$

where:

RV_t is the non-domestic rates allowance in 2009/10 prices, and shall take the value set out in the table below:

| | |
|---|------|
| Relevant year t commencing on 1 April | 2012 |
|---|------|

| | |
|-----------------|----|
| RV _t | £X |
|-----------------|----|

Comment [W13]: Non-domestic rates allowance for the rollover year will be communicated in final proposals

RPIF_t shall take the same meaning as given in paragraph 2 of special condition D2
(Restriction of transmission charges: revenue from transmission owner services)

For the purposes of paragraph 4 of this condition, the Authority may direct that, in respect of the relevant year commencing 1 April 2010 and each subsequent relevant year, RB_t be calculated in accordance with the formula set out in paragraph 3 of this condition where the Authority is satisfied that the licensee has used reasonable endeavours to minimise the amount payable for those years in respect of non-domestic rates.

Formula for the tower space rental revenue adjustment

4. For the purposes of paragraph 1, TSR_t is an amount calculated in accordance with the following formula:

$$TSR_t = 0.5 \times TSRR_{t-2}$$

where:

TSRR_{t-2} means the revenue received in relevant year t-2 by the licensee from any company in respect of fees for permitting mobile telephony equipment to be installed on the licensee's electricity transmission towers.

Formula for the Temporary Physical Disconnection Term

5. For the relevant year t commencing 1 April 2012, TPD_t shall be an amount equal to the interruption payments made by the licensee in relation to interruption(s) in its transmission area within each respective relevant year t-1, and shall be adjusted by financing costs at the rate of x per cent per annum.

Special Condition D5: Incentive Payments

1. For the purposes of paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue) IP_t is derived from the following formula:

$$IP_t = RI_t + IFI_t + SFI_t$$

where:

- RI_t means the revenue adjustment term, whether of a positive (subject to paragraph 3 of this condition) or of a negative value, reflecting the licensee's performance against a transmission network reliability incentive in the relevant incentive period relating to year t, and derived in accordance with Part 1 of this condition;
- IFI_t means the revenue adjustment term in relevant year t in respect of expenditure pursuant to the Innovation Funding Incentive and shall be calculated in accordance with Part 2 of this condition;
- SFI_t means the revenue adjustment factor in respect of rates of leakage of SF_6 and shall be calculated in accordance with Part 3 of this condition; and

Comment [W14]: Term RevApOx funding preconstruction work has been required. The rationale is described in the informal consultation.

Part 1 – Adjustment to Transmission Network Revenue Restriction due to Transmission Network Reliability Incentive Scheme

2. For the purpose of paragraph 1, the term RI_t shall be derived from the following formula:

$$RI_t = PR_{t-1} \times RAF_y$$

where:

- RI_t in the relevant year t is the transmission network reliability incentive performance during incentive period y which shall equate to the relevant year t-1;
- PR_{t-1} Shall take the value of PR_t calculated in accordance with the formula specified in paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue) in respect of the relevant year t-1; and

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RAF_y is the revenue adjustment factor based on the licensee's performance against the transmission network reliability incentive during incentive period y , and is derived from the following formula:

If $RIP_y < RILT_y$:

$$RAF_y = RIUPA_y \left[\frac{RILT_y - RIP_y}{RILT_y} \right]$$

If $RIP_y > RIUT_y$:

$$RAF_y = \max \left(RIDPA_y, RIDPA_y \left[\frac{RIP_y - RIUT_y}{RICOL_y - RIUT_y} \right] \right)$$

Otherwise:

$$RAF_y = 0$$

where:

$RILT_y$ is the lower incentivised loss of supply volume target in respect of incentive period y , which has the value as specified in the following table:

| Relevant year t | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
|----------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Incentive Period y | 1 April 2006 to 31 March 2007 | 1 April 2007 to 31 March 2008 | 1 April 2008 to 31 March 2009 | 1 April 2009 to 31 March 2010 | 1 April 2010 to 31 March 2011 | 1 April 2011 to 31 March 2012 | 1 April 2012 to 31 March 2013 |
| $RILT_y$ | 248MWh | 237MWh | 237MWh | 237MWh | 237MWh | 237MWh | 237MWh |

Comment [W15]: IP – page 23

Reliability incentive is maintained at current levels.

$RIUT_y$ is the upper incentivised loss of supply volume target in respect of incentive period y , which has the value as specified in the following table:

| Relevant year t | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
|-----------------|---------|---------|---------|---------|---------|---------|---------|
|-----------------|---------|---------|---------|---------|---------|---------|---------|

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| Incentive Period y | 1 April 2006 to 31 March 2007 | 1 April 2007 to 31 March 2008 | 1 April 2008 to 31 March 2009 | 1 April 2009 to 31 March 2010 | 1 April 2010 to 31 March 2011 | 1 April 2011 to 31 March 2012 | 1 April 2012 to 31 March 2013 |
|--------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| RIUT _y | 274MWh | 263MWh | 263MWh | 263MWh | 263MWh | 263MWh | 263MWh |

Comment [W16]: IP – page 23

Reliability incentive is maintained at current levels.

RIUPA_y is the maximum upside percentage adjustment in respect of incentive period y, which, subject to paragraph 3, has the value as specified in the following table:

| Relevant year t | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
|--------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Incentive Period y | 1 April 2006 to 31 March 2007 | 1 April 2007 to 31 March 2008 | 1 April 2008 to 31 March 2009 | 1 April 2009 to 31 March 2010 | 1 April 2010 to 31 March 2011 | 1 April 2011 to 31 March 2012 | 1 April 2012 to 31 March 2013 |
| RIUPA _y | 1.0% | 1.0% | 1.0% (subject to paragraph 3) | 1.0% (subject to paragraph 3) | 1.0% (subject to paragraph 3) | 1.0% (subject to paragraph 3) | 1.0% (subject to paragraph 3) |

RIDPA_y is the maximum downside percentage adjustment in respect of incentive period y, which has the value as specified in the following table:

| Relevant year t | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
|--------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Incentive Period y | 1 April 2006 to 31 March 2007 | 1 April 2007 to 31 March 2008 | 1 April 2008 to 31 March 2009 | 1 April 2009 to 31 March 2010 | 1 April 2010 to 31 March 2011 | 1 April 2011 to 31 March 2012 | 1 April 2012 to 31 March 2013 |
| RIDPA _y | -1.5% | -1.5% | -1.5% | -1.5% | -1.5% | -1.5% | -1.5% |

RICOL_y is the incentivised loss of supply collar in respect of incentive period y which has the value as specified in the following table:

| Relevant year t | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
|--------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Incentive Period y | 1 April 2006 to 31 March | 1 April 2007 to 31 March | 1 April 2008 to 31 March | 1 April 2009 to 31 March | 1 April 2010 to 31 March | 1 April 2011 to 31 March | 1 April 2012 to 31 March |

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| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|--------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| RICOL_y | 653MWh | 619MWh | 619MWh | 619MWh | 619MWh | 619MWh | 619MWh |

RIP_y is the sum of the volumes of unsupplied energy in all incentivised loss of supply events in incentive period y; and

max (A,B) means the value equal to the greater of A and B.

3. For the purposes of calculating RAF_y, RIUPA_y shall take the value specified in the relevant table in paragraph 2 above before 1 April 2009 or such later date as the Authority may direct. After 1 April 2009 or such later date as the Authority may direct, RIUPA_y shall take the value specified in the relevant table in paragraph 2 above for relevant years during which the licensee implements an approved network output measures methodology in accordance with standard condition B17 (Network Output Measures), and shall take the value zero for relevant years during which the licensee fails to implement the methodology, unless otherwise directed by the Authority.
4. The licensee shall prepare and maintain a transmission reliability incentive methodology statement approved by the Authority, setting out the methodology by which the licensee will determine the volume of unsupplied energy in each incentivised loss of supply event.
5. The licensee shall use reasonable endeavours to apply the methodology set out in the statement in calculating the volume of unsupplied energy in relation to any incentivised loss of supply event.
6. Before revising the methodology referred to in paragraph 4, the licensee shall submit to the Authority a copy of the proposed revisions to the methodology.
7. Unless the Authority otherwise directs within 1 month of the Authority receiving any proposed revisions to the methodology under paragraph 6, the licensee shall use reasonable endeavours to apply the methodology revised in accordance with such proposed revisions.
8. For the purposes of this special condition “incentivised loss of supply event” shall mean any event on the licensee’s transmission system that causes electricity not to be supplied to a customer subject to the following exclusions:
 - (a) any such event that causes electricity to not be supplied to 3 or less directly connected parties;

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- (b) any unsupplied energy resulting from a shortage of available generation;
 - (c) any unsupplied energy resulting from a de-energisation or disconnection of a user's equipment under an event of default as defined in the CUSC;
 - (d) any unsupplied energy resulting from a user's request for disconnection in accordance with the Grid Code;
 - (e) any unsupplied energy resulting from a planned outage as defined in the Grid Code;
 - (f) any unsupplied energy resulting from emergency de-energisation by a user as defined in the CUSC; and
 - (g) any unsupplied energy 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.
9. For the purpose of paragraph 8, a "directly connected party" is any party with a direct connection to the licensee's transmission system with the exception of any connection to a distribution system.
10. Where:
- (a) the licensee considers that any event on the licensee's transmission system that causes electricity not to be supplied to a customer 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 volume of unsupplied energy 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 volume of unsupplied energy for the relevant incentivised loss of supply event the constituent data relevant to that event shall be adjusted as specified in that direction.

11. For the purpose of paragraph 10, 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 interrupting supply and to mitigate its effect (both in anticipation and subsequently).
12. A direction under paragraph 10 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 objectionsand the Authority has considered such representations or objections and given reasons for its decision.
13. For the purpose of paragraph 10, an “exceptional event” means an event or circumstance that is beyond the reasonable control of the licensee and which results in or causes electricity not to be supplied to a customer 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), any severe weather event resulting in more than 50 faults being recorded by the licensee on the licensee’s transmission system in any 24 hour period, 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 – Calculation of charge restriction adjustments arising from the innovation funding incentive scheme

14. The purpose of this part of this condition is to provide for adjustments to maximum revenue to reflect performance of the licensee in relation to its investment in innovation under the Innovation Funding Incentive (IFI) scheme.
15. For the purposes of paragraph 1, IFI_t, is derived for the relevant year t from the formula:

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$$IFI_t = ptr_t \times \left(\min \left(IFIE_t, \max \left(\text{€}500,000 + KIFI_t, \text{€}0.005 \times PR_t \right) \right) + KIFI_t \right)$$

where:

$IFIE_t$ means the eligible IFI expenditure for the relevant year t as reported in the IFI annual report for that year;

PR_t means the regulated transmission revenue in the relevant year t as determined in accordance with paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue);

ptr_t shall take the value 0.8; and

$KIFI_t$ is the carry forward in relation to the innovation funding incentive scheme as set out in the IFI annual report for relevant year t-1, and is calculated in accordance with the following:

$$\text{if } IFIE_{t-1} \leq 0.5 \times \max \left(\text{€}500,000, \text{€}0.005 \times PR_{t-1} \right);$$

$$KIFI_t = 0.5 \times \max \left(\text{€}500,000, \text{€}0.005 \times PR_{t-1} \right)$$

$$\text{if } IFIE_{t-1} > 0.5 \times \max \left(\text{€}500,000, \text{€}0.005 \times PR_{t-1} \right)$$

$$\text{and } IFIE_{t-1} \leq \max \left(\text{€}500,000, \text{€}0.005 \times PR_{t-1} \right);$$

$$KIFI_t = \max \left(\text{€}500,000, \text{€}0.005 \times PR_{t-1} \right) - IFIE_{t-1}$$

$$\text{if } IFIE_{t-1} > \max \left(\text{€}500,000, \text{€}0.005 \times PR_{t-1} \right);$$

$$KIFI_t = 0$$

16. For the purposes of this condition:

“**eligible IFI expenditure**” means the amount of expenditure spent or accrued by the licensee in respect of eligible IFI projects;

“**eligible IFI projects**” means those projects that meet the requirements described for such projects;

“**IFI annual report**” means the report produced each year by the licensee, in a format agreed with the Authority, in respect of expenditure and innovation; and

in each case above, all as more fully set out in the revenue reporting regulatory instructions and guidance for the time being in force under standard condition B16 (Price Control Revenue Reporting and Associated Information) in relation to the innovation funding incentive scheme.

Part 3 - Adjustment to restriction of transmission charges due to SF₆ incentive

- 17. The purpose of this condition is to provide for adjustments to allowed revenue to reflect performance of the licensee in relation to its Sulphur Hexafluoride (SF₆) incentive scheme.
- 18. For the purposes of paragraph 1, SFI_t, shall where ALK_t < TLK_t be calculated in accordance with the following formula:

$$SFI_t = 0.002 \times PR_t$$

otherwise: SFI_t shall take the value zero.

where:

PR_t means the licensee’s base transmission revenue, as defined in paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue);

ALK_t means the actual leakage rate of SF₆ gas in relevant year t as a percentage of inventory of SF₆ gas as reported by the licensee pursuant to the revenue reporting regulatory instructions and guidance issued in accordance with standard condition B16 (Price Control Revenue Reporting and Associated Information); and

TLK_t means the target leakage rate of SF₆ gas in relevant year t as a percentage of inventory of SF₆ and shall take the values in the table below:

| Relevant year t | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
|------------------|---------|---------|---------|---------|---------|---------|
| TLK _t | 3.00% | 2.75% | 2.50% | 2.25% | 2.00% | X% |

Comment [W17]: To be updated with target set in Final proposals

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19. The licensee shall on or before 1 April 2007 or such later date as the Authority may direct, submit to the Authority a leakage rate of SF₆ methodology statement consistent with best industry practice, setting out the methodology by which the licensee will determine the leakage rate of SF₆ gas, required for the calculation of the actual leakage rate of SF₆ gas, ALK_t, and the target leakage rate of SF₆ gas, TLK_t.
20. Unless the Authority directs otherwise within 2 months of the date on which the licensee submits the statement to the Authority in accordance with paragraph 19, the licensee shall use reasonable endeavours to apply the methodology set out in that statement.
21. Before revising the methodology referred to in paragraph 19 the licensee shall submit to the Authority a copy of the proposed revisions to the methodology.
22. Unless the Authority otherwise directs within 1 month of the Authority receiving any proposed revisions to the methodology under paragraph 21, the licensee shall use reasonable endeavours to apply the methodology revised in accordance with such proposed revisions.
23. Where:
 - (a) the licensee considers that any event on the licensee's transmission system that causes leakage of SF₆ gas 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 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 the actual leakage of SF₆ gas and the value of ALK_t in relevant year t shall be adjusted as specified in that direction. In directing the value of any adjustment to ALK_t in relevant year t pursuant to this paragraph, the Authority shall reserve the right to modify the value of any proposed adjustment notified by the licensee that may be made to ALK_t in relevant year t.

24. For the purpose of paragraph 23, any adjustment directed by the Authority shall take account of the extent to which the Authority is satisfied that the licensee had used reasonable endeavours to

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prevent the event from resulting in the leakage of SF₆ and to mitigate its effect (both in anticipation and subsequently).

25. A direction under paragraph 23 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.

26. For the purpose of paragraph 23, an “exceptional event” means an event or circumstance that is beyond the reasonable control of the licensee and which results in, causes or prohibits the timely prevention of the leakage of SF₆ gas 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, any 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.
27. Without prejudice to paragraph 26, an “exceptional event” may include circumstances where a significant danger to the public gives rise to the licensee prioritising health and safety over the reduction of leakage of SF₆ gas at a particular site.

Special Condition D6: Adjustments to Transmission Network Revenue

Comment [W18]: Condition to remain in place unchanged in the rollover licence

1. If, in respect of any relevant year, the transmission network revenue exceeds the maximum revenue by more than 3.75 percent of the latter, the licensee shall furnish an explanation to the Authority and in the next following relevant year the licensee shall not effect any increase in charges for the provision of transmission network services unless it has demonstrated to the reasonable satisfaction of the Authority that the transmission network revenue would not be likely to exceed the maximum revenue in that next following relevant year.
2. If, in respect of any two successive relevant years, the sum of the amounts by which the transmission network revenue has exceeded the maximum revenue is more than 4.75 percent of the maximum revenue for the second of those years, then in the next following relevant year the licensee shall, if required by the Authority, adjust its charges such that the transmission network revenue would not be likely, in the judgement of the Authority, to exceed the maximum revenue in that next following relevant year.
3. If, in respect of two successive relevant years, the transmission network revenue is less than 90 percent of the maximum revenue, the Authority, after consultation with the licensee, may direct that, in calculating K_t in respect of the next following relevant year, there shall be substituted for AR_{t-1} in the formula set out in paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue) above such figure as the Authority may specify being not less than AR_{t-1} and not more than $0.90(TO_{t-1})$.

Special Condition D7: Allowance in Respect of Security Costs

Comment [W19]: This provision will remain for the rollover year

1. At any time during a security period, the licensee may give notice in writing to the Authority suspending, with effect from the date of receipt of the notice by the Authority, application of such of the transmission network revenue restriction as may be specified in the notice for the unexpired term of the security period.
2. At any time during a security period, the Authority may (having regard to his duties under the Act) by means of directions:
 - (a) suspend or modify for the unexpired term of the security period the transmission network revenue restriction or any part or parts thereof; or
 - (b) introduce for the unexpired term of the security period a new transmission network revenue restriction,in either case so as to make such provision as in the opinion of the Authority is requisite or appropriate to enable the licensee to recover by means of an appropriate equitable increase on all charges made in the course of the provision of transmission network services an amount estimated as being equal to the licensee's allowed security costs attributable to the provision of transmission network services during such period, and the licensee shall comply with the terms of any directions so issued.
3. Subject to paragraphs 4 and 6, the licensee shall in any relevant year be entitled to recover an aggregate amount equal to its allowed security costs attributable to the provision of transmission network services in that year or (insofar as not previously recovered) any previous year, by means of appropriate equitable increases on the charges made by the licensee in the course of the provision of transmission network services.
4. Paragraph 3 shall not apply insofar as such allowed security costs:
 - (a) were otherwise recovered by the licensee; or
 - (b) were taken into account by the Authority in setting a transmission network revenue restriction by means of directions issued under paragraph 2 above.
5. The licensee shall following the end of each relevant year provide to the Authority details in respect of that relevant year of:

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- (a) the amount of the licensee's allowed security costs;
 - (b) the aggregate amounts charged under paragraph 3 on account of the licensee's allowed security costs; and
 - (c) the bases and calculations underlying the increases in charges made by the licensee in its provision of transmission network services together with an explanation of the basis of attribution of allowed security costs to the provision of transmission network services.
6. Where the Authority is satisfied that the licensee has recovered amounts in excess of the allowed security costs attributable to the provision of transmission network services, the Authority may issue directions requiring the licensee to take such steps as may be specified to reimburse customers in receipt of transmission network services for the excess amounts charged to them, and the licensee shall comply with any directions so issued provided that if the excess amounts relate to allowed security costs paid to any authorised electricity operator, the licensee shall not be obliged to make any such reimbursement unless and until it has recovered such costs from the relevant authorised electricity operator.
7. No amounts charged by the licensee under this special condition (whether or not subsequently required to be reimbursed) shall be taken into account for the purpose of applying the provisions of special condition D2 (Restriction on Transmission Network Revenue).

8. In this special condition:

"allowed security cost" shall have the meaning ascribed to that term in the Fuel Security Code.

"security period" means a period commencing on the date on which any direction issued by the Secretary of State under Section 34(4) of the Act enters effect and terminating on the date (being not earlier than the date such direction, as varied, is revoked or expires) as the Authority, after consultation with such persons (including, without limitation, licence holders liable to be principally affected) as it shall consider appropriate, may with the consent of the Secretary of State by notice to all licence holders determine after having regard to the views of

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such persons.

Special Condition D8: Duration of the Transmission Network Revenue Restriction

1. The transmission network revenue restriction shall apply so long as this licence continues in force but shall cease to have effect in such circumstances and at such times as are described in paragraphs 2 to 6 below.
2. The transmission network revenue restriction (or any part of it) 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 3 or if notice is given to the Authority by the licensee in accordance with either paragraph 5 or paragraph 6.
3. A disapplication request shall:
 - (i) be in writing addressed to the Authority;
 - (ii) specify whether it relates to the transmission network revenue restriction or to any part thereof; and
 - (iii) state the date (being not earlier than the date referred to in paragraph 4) from which the licensee wishes the Authority to agree that that condition or conditions (or part or parts thereof) shall cease to have effect.
4. No disapplication following delivery of a disapplication request shall have effect until a date (the “disapplication date”) being 31 March in the first relevant year ending more than 18 months after the date of that disapplication request.
5. **If the Authority has not made a reference to the Competition Commission under section 12 of the Act relating to the modification of the conditions or the part or parts thereof specified in the disapplication request before the beginning of the period of 6 months which will end on the disapplication date, the licensee may deliver written notice to the Authority terminating the application of such conditions (or any part or parts thereof) as are specified in the disapplication request with effect from 1 April in the relevant year first commencing after the disapplication date.**
6. If the Competition Commission makes a report on a reference made by the Authority relating to the modification of the conditions (or any part or parts thereof) specified in the disapplication request and such report does not include a conclusion that:

Comment [W20]: This may not be compatible with the third package; we will liaise with the licensees in advance of consulting on the amendments if necessary.

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- (a) the cessation of those conditions, in whole or in part, operates or may be expected to operate against the public interest; or
- (b) 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 the Authority written notice terminating the application of those conditions or any part or parts thereof with effect from the disapplication date or later.

Special Condition D9: Capital Expenditure Incentive and Safety Net

The purpose of this condition is to set out how the Capital Expenditure Incentive and Safety Net will operate.

Part 1: Capital Expenditure Incentive Revenue Adjustment

1. For the purposes of paragraph 3 of Special Condition J2 (Restriction of Transmission charges: revenue from transmission owner services), on 1 April 2012 CxIncRA_t shall take the value **£xm**

Comment [W21]: The calculation of the values this term will take in subsequent years will be outlined in our final proposals document

Part 2: Capital Expenditure Safety Net

2. For the purposes of this condition, relevant capital expenditure (RelC_{x_t}) in respect of the relevant year t shall be calculated as follows:

Comment [W22]: Capex safety net to remain in place unchanged for the rollover year

$$RelC_{x_t} = \frac{Cx_t - ESCx_t}{RPIF_t}$$

Comment [W23]: There is no need to subtract LC (logged up costs) or LV (Revenue driver increments) for the reasons described in the informal licence drafting document.

where:

C_{x_t} shall take the value of C_{x_n} for relevant year n=t, where C_{x_n} shall take the same meaning as given in paragraph 3 of this condition;

ESC_{x_t} shall take the value of ESC_{x_n} for relevant year n=t, where ESC_{x_n} shall take the same meaning as given in paragraph 3 of this condition;

RPIF_t shall take the same meaning as given in paragraph 2 of special condition D2 (Restriction of transmission charges: revenue from transmission owner services)

3. The licensee shall use reasonable endeavours to estimate relevant capital expenditure in respect of the relevant year t and each subsequent relevant year up to and including the relevant year commencing 1 April 2012.

Comment [W24]: Updated dates

4. For the purposes of paragraph 16, the relevant capital expenditure allowance (RelAC_{x_t}) in the relevant year t shall be calculated in accordance with the following formula:

$$RelAC_t = BCx_t$$

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where

BCx_t means, subject to Part 2 (Capital Expenditure Safety Net) of this condition, the capital expenditure allowance which shall take the value $\pounds m$ expressed in 2009/10 prices.

Comment [W25]: As per the informal licence consultation this value will be the sum of the revenue driver and base capex allowance

5. If, in respect of the relevant year t or any subsequent relevant year up to and including the relevant year commencing on 1 April 2012, the licensee reasonably expects that relevant capital expenditure $RelC_{x_t}$ will be less than $0.8 \times \overline{RelAC_{x_t}}$, then the licensee shall furnish to the Authority a statement setting out:

Comment [W26]: Date updated

- (a) the amount by which the licensee expects relevant capital expenditure to fall below $RelAC_{x_t}$ in respect of that same relevant year;
- (b) the factors which, in the licensee's reasonable opinion, has or is likely to result in the shortfall referred to in sub-paragraph (a).

6. The Authority may request any additional information in relation to paragraphs 13 to 16 of this condition that it considers is reasonably necessary to exercise its duties and functions under the Act. Such a request shall be made in writing to the licensee and specify the date by which information shall be provided being not less than 14 days from the date of the notice.

7. Where the Authority issues a request pursuant to paragraph 17, the licensee shall, unless the Authority agrees otherwise, provide such information that has been requested by the Authority by the date specified in the request.

8. The Authority may, having considered the information provided by the licensee pursuant to this condition, by notice to the licensee set out that it proposes to reduce the value of the base transmission revenue set out in paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue). Such notice shall specify:

- (a) the amount by which the Authority proposes reduce base transmission revenue as a result of relevant capital expenditure $RelC_{x_t}$ being less than $0.8 \times \overline{RelAC_{x_t}}$;
- (b) the date on which the Authority proposes that the proposed reduction in base transmission revenue would take effect;
- (c) the reasons why the Authority considers that the proposed reduction is appropriate;

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- (d) the date, being of no less than 28 days from the date of the notice, by which the Authority invites comments from the licensee; and
 - (e) the date by which the Authority intends to give notice of such proposed licence amendments pursuant to section 11 (or as the case may be, section 12) of the Act.
9. The Authority shall have regard to any representations made by the licensee in response to the notice referred to in paragraph 19 before formally proposing the modification to the value of the base transmission revenue in paragraph 2 of special condition D2 (Restriction on Transmission Network Revenue) referred to in the notice pursuant to section 11 (or as the case may be, section 12) of the Act.
10. The proposals provided to the licensee pursuant to paragraph 19 above shall be constructed, so far as is reasonably practicable, to reduce the licensee's base transmission revenue by an amount which is no more than an amount which represents the savings in financing costs, including depreciation, in respect of a reduction to the capital expenditure allowance determined by the Authority for the purpose of this part of this condition in the light of information provided by the licensee in accordance with this part of this condition.

Special Condition AA5A: Balancing Services Activity Revenue Restriction

Part 1

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

Comment [W27]: Licence updates to external balancing have been processed via the following licence amendment process:

<http://www.ofgem.gov.uk/Markets/WhIMKts/EffSystemOps/SystOpIncent/Documents1/Elec%20-%20Licence%20Modification%20Directi on.pdf>

Changes to this condition reflect changes to internal capex and opex only.

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

Comment [W28]: As detailed above updates to this section of the licence are outside the scope of the rollover

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

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

$$BX\ int_t = CSOC_t + IncPayInt_t + NC_t + IAT_t + IONT_t$$

where:

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

CSOC_t which is the aggregate of all incentivised internal costs associated with the balancing services activity in respect of relevant year t, and shall have the value £xm (in 2009/10 prices);

IncPayInt_t which means the incentive payment associated with the internal operating costs of undertaking the balancing services activity in

Comment [W29]: Removed allowance for SO internal costs associated with the offshore regime. An allowance for these costs is now to be included in the incentivised opex allowance, as per our October consultation :

http://www.ofgem.gov.uk/Networks/Tran/PriceControls/TPCR4Roll-over/Documents1/111007_TPCR4RO_1 nterimconsultation.pdf

Comment [W30]: As outlined in our informal licence consultation this value will now be derived via the financial model.

respect of relevant year t, calculated in accordance with paragraph 15B;

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

IAT_t which means, in respect of each relevant year t, the amount of any allowed income adjustment given by paragraph 10(b);

$IONT_t$ which means, in respect of each relevant year t, the amount of any allowed income adjustments given by paragraph 16(b).

6. Not used.

15B. Determination of incentive payments on internal operating costs

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

$$IncPayInt_t = \left(ISF_t \left(\left(1 + \left(\frac{RPIF_t}{100} \right) \right) IMOT_t \right) - CSOOC_t \right) + \left(CSF_{M_t} \left(P_{M_t} - OS_{M_t} \right) \right)$$

where:

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

$$\text{if } IMOT_t > CSOOC_t \text{ then } ISF_t = IUSF_t \text{ otherwise } ISF_t = IDSF_t$$

where:

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

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

Comment [W31]: Terms IUSF and IUSD have been set to 0.25% for the rollover year to align them with the SO incentives scheme. The licence changes for this have already been directed via the licence modification direction establishing the external SO incentives in from 2011 - 2013: <http://www.ofgem.gov.uk/Markets/Wholesale/EffSystemOps/SystOpIncent/Documents1/Elec%20-%20Licence%20Modification%20Notice%20FINAL.pdf>

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

| | Relevant year | | | | | |
|--------------------------------|---------------|---------|---------|---------|---------|---------|
| Variable | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
| $IMOT_t$ | | | | | | X |
| £ million 2009/10 prices | 47.9 | 47.0 | 45.9 | 46.9 | 46.5 | |

Comment [W33]: Opex allowance for 2012/13 to be included

Comment [W32]: Historic prices will be updated into 2009/10 values

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

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

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

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

$CSOOC_t$ has the meaning given in paragraph 15;

$RPIF_t$ shall take the same meaning as given in paragraph 2 of special condition D2 (Restriction of transmission charges: revenue from transmission owner services).

15C. Determination of non-incentivised costs

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

Comment [W34]: A separate allowance for tax and pension allowances has been removed; these allowances will be included in the base revenue term CSOC

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$$NC_t = \left(NSOC_t + BI_{t_t} + ON_t \right) \times RPIF_t$$

where:

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

| Variable | Relevant year | | | | | |
|---|---------------|---------|---------|---------|---------|---------|
| | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
| NSOC _t (£ million 2009/10 prices) | 17.8 | 2.1 | 1.7 | 1.6 | 1.6 | X |

Comment [W36]: Non-incentivised costs to be determined for the rollover year

Comment [W35]: Prices will need to be inflated to 2009/10 values

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

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

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

- (i) an event or circumstance constituting force majeure under the STC;
- (ii) an event or circumstance resulting from an amendment to the STC not allowed for in setting the allowed revenues of the licensee for the relevant year t; and
- (iii) an event or circumstance other than listed above which is, in the opinion of the Authority, an income adjusting event and approved by it as such in accordance with paragraph 18 of this licence condition

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

- (b) For the purpose of relevant year t commencing on 1 April 2010 and ending on 31 March 2011, events or circumstances arising directly from the implementation or otherwise of the following proposed amendments (both the original and any alternative) listed in table 1 below shall not qualify as an income adjusting event for the purpose of paragraph 16(a) above:

Table 1:

| Amendment No. | Amendment Title |
|----------------------|------------------------|
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |

8. Notice of proposed income adjusting event

- (a) Where the licensee considers, and can provide supporting evidence that, in respect of relevant year t, there have been costs and/or expenses that have been incurred or saved by an income adjusting event, then the licensee shall give notice of this event to the Authority.
- (b) A notice provided to the Authority under paragraph 17(a) shall give particulars of:
- (i) the event to which the notice relates and the reason(s) why the licensee considers this event to be an income adjusting event;
 - (ii) the amount of any change in costs and/or expenses that can be demonstrated by the licensee to have been caused or saved by the event and how the amount of these costs and/or expenses has been calculated;

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- (iii) the amount of any allowed income adjustment proposed as a consequence of that event and how this allowed income adjustment has been calculated; and
 - (iv) any other analysis or information which the licensee considers to be sufficient to enable the Authority and the relevant parties referred to in subparagraph 18(a) to fully assess the event to which the notice relates.
- (c) If the Authority considers that the analysis or information provided in sub-paragraphs 17(b)(i) to 17(b)(iv) above is insufficient to enable both the Authority and the relevant parties referred to in subparagraph 18(a) to assess whether an income adjusting event has occurred and/or the amount of any allowed income adjustment that should be approved, the Authority can request that the supporting evidence be supplemented with additional information that it considers appropriate.
- (d) A notice of an income adjusting event shall be given as soon as is reasonably practicable after the occurrence of the income adjusting event, and, in any event, not later than three months after the end of the relevant year in which it occurs.
- (e) The Authority will make public, excluding any confidential information, any notice of an income adjusting event following its receipt.
- (f) Any notice submitted to the Authority under paragraph 17(a) above should clearly identify whether any of the information contained in the notice is of a confidential nature. The Authority shall make the final determination as to confidentiality having regard to:
- (i) the need to exclude from disclosure, so far as is reasonably practicable, information whose disclosure the Authority considers would or might seriously prejudicially affect the interests of a person to which it relates; and
 - (ii) the extent to which the disclosure of the information mentioned in sub-paragraph 17(f)(i) is necessary for the purposes of enabling the relevant parties to fully assess the event to which the notice relates.

9. The Authority's determination

- (a) The Authority shall determine (after consultation with the licensee and such other persons as it considers desirable):
 - (i) whether any or all of the costs and/or expenses given in a notice pursuant to paragraph 17(a) were caused or saved by an income adjusting event;

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- (ii) whether the event or circumstance has increased or decreased the value of CSOOC_t or ACE_t by more than £1,000,000 (the “STC threshold amount”) and is demonstrably not included in IMOT_t or CSOCET_t respectively for relevant year t;
 - (iii) if so, whether the amount of the proposed income adjustment ensures that the financial position and performance of the licensee are, insofar as is reasonably practicable, the same as if that income adjusting event had not taken place, and if not, what allowed income adjustment would secure that effect; and
 - (iv) the periods, if any, over which the amounts should apply.
- (b) In relation to the relevant year t, the allowed income adjustment (IAT_t) shall be:
- (i) the value determined by the Authority under paragraph 18(a) above; or
 - (ii) if the Authority has not made a determination under paragraph 18(a) above within three months of the date on which notice of an income adjusting event was provided to the Authority, the amount of the allowed income adjustment proposed as a consequence of the event in the notice given to the Authority under subparagraph 17(b)(iii); or
 - (iii) in all other cases zero, including situations where the Authority has not made a determination under paragraph 18(a) above within three months of the date on which notice of an income adjusting event was provided to the Authority and the Authority has, before the end of that three month period, informed the licensee that the Authority considers that the analysis or information provided in accordance with paragraphs 17(b) and/or 17(c) is insufficient to enable the Authority to assess whether an income adjusting event has occurred and/or the amount of any allowed income adjustment.
- (c) The Authority’s decision in relation to any notice given under paragraph 17(a) shall be in writing, shall be copied to the licensee and shall be in the public domain.
- (d) The Authority may revoke an approval of an income adjusting event and allowed income adjustment with the consent of the licensee, following consultation with the licensee and relevant parties. Revocation of any income adjusting event and allowed income adjustment shall be in writing, shall be copied to the licensee and shall be in the public domain.

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10. Not used.

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

Comment [W37]: This part of the condition to remain unchanged