

**NOTICE UNDER SECTION 11A(2) OF THE ELECTRICITY ACT 1989 OF  
PROPOSED MODIFICATIONS TO THE SPECIAL CONDITIONS OF SCOTTISH  
HYDRO ELECTRIC TRANSMISSION LIMITED'S LICENCE**

The Gas and Electricity Markets Authority (the "Authority") hereby gives notice pursuant to section 11A(2) of the Electricity Act 1989 (the "Act") as follows:

1. The Authority proposes to modify the electricity transmission licence (the "Licence") held by Scottish Hydro Electric Transmission Limited ("SHETL") granted or treated as granted under section 6(1)(b) of the Act by amending:
  - a. Special Condition J1: Restriction of Transmission Charges (Definitions);
  - b. Special Condition J2: Restriction of transmission charges;
  - c. Special Condition J3: Restriction of transmission charges: Transmission Investment for Renewable Generation;
  - d. Special Condition J4: Restriction of transmission charges: Allowed pass-through items;
  - e. Special Condition J5: Restriction of transmission charges: Total incentive revenue adjustment;
  - f. Special Condition J7: Capital Expenditure Incentive and Safety Net; and
  - g. Schedule C: Supplementary provisions to special condition J3

(together the "Conditions").

2. The reason why the Authority proposes to modify the Licence is to implement a one-year rollover of the existing price controls as detailed in the Authority's decision 'TPCR4 Rollover: Final Proposals' dated 28 November 2011<sup>1</sup> (the "Decision").

3. The effect of the proposed modification:

- a. revises the Conditions specified in paragraph one above to implement the one-year rollover arrangements for the Formula Year commencing on 1 April 2012 which include:
  - i. Discontinuing the logging up of the existing cost categories;
  - ii. Setting targets for the reliability incentive;
  - iii. Continuing the existing set of revenue drivers; and
  - iv. Continuing to incentivise efficient capital expenditure through a 25 per cent sharing factor
- b. revises the Conditions to implement the new approach to the RPI indexation method that is to apply to allowed revenues from the Formula Year commencing on 1 April 2012.


4. The proposed modifications to the Conditions specified in paragraph one above is

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<sup>1</sup>[http://www.ofgem.gov.uk/Networks/Trans/PriceControls/TPCR4Rollover/Documents1/TPCR4\\_Rollover\\_Final\\_Proposals.pdf](http://www.ofgem.gov.uk/Networks/Trans/PriceControls/TPCR4Rollover/Documents1/TPCR4_Rollover_Final_Proposals.pdf)

set out in the Schedule to this Notice.

5. A copy of the proposed modification and the Decision referred to in this Notice are available (free of charge) from the Ofgem library (telephone 020 7901 1600) or on the Ofgem website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)).
6. Any representations on the proposed licence modifications may be made on or before **6 February 2012** to: Gareth Walsh, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to [gareth.walsh@ofgem.gov.uk](mailto:gareth.walsh@ofgem.gov.uk)
7. All responses will normally be published on Ofgem's website and held in the Research and Information Centre. However, if respondents do not wish their response to be made public then they should clearly mark their response as not for publication. Ofgem prefers to receive responses in an electronic form so they can be placed easily on the Ofgem website.
8. If the Authority decides to make the proposed modification it will take effect 56 days after the decision is published.



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**Hannah Nixon**  
Acting Senior Partner, Transmission  
**Duly authorised on behalf of the Authority**

**9 January 2012**

**NOTICE OF STATUTORY REPRESENTATIONS**

Proposed modification of special conditions J1, J2, J3, J4, J5, J7, and Schedule C. In response to the statutory notice of 5 January 2012 in respect of the above proposed modifications, the attached constitutes a representation in respect of that proposal on behalf of:

.....  
.....

I confirm that I am duly authorised to provide this representation on behalf of the above named company or each of the above named companies.

Signed: .....

Date: .....

## **SCHEDULE**

### **PROPOSED MODIFICATION OF THE SPECIAL CONDITIONS OF SCOTTISH HYDRO ELECTRIC TRANSMISSION LIMITED'S ELECTRICITY TRANSMISSION LICENCE IN RESPECT OF ITS TRANSMISSION SYSTEM UNDER SECTION 11A(2) OF THE ELECTRICITY ACT 1989**

## Special Condition J1 - Restriction of Transmission Charges (Definitions)

1. In this condition and in special conditions J2 to J11 inclusive and in schedule A to C:

“allowed pass-through items” means the items referred to in special condition J4 (Restriction of transmission charges: Allowed pass-through items).

“allowed transmission owner revenue” means:

in the relevant year commencing 1 April ~~2007~~ 2012 and every subsequent relevant year the revenue calculated in accordance with the formula set out in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services); ~~and~~

~~(a) in the relevant year preceding 1 April 2012, the revenue calculated in accordance with the formula set out in paragraph 3 of special condition J2 (Restriction of transmission charges) of this licence in the form in which it was in force at 31 March 2012, and~~

"average specified rate" means the average of the daily base rates of Barclays Bank plc current from time to time during the period in respect of which the calculation falls to be made.

“base transmission revenue” means the revenue calculated in accordance with the formula set out in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services).

“BETTA” means the British electricity trading and transmission arrangements which are provided for

in Chapter 1 of Part 3 of the Energy Act 2004

" charge restriction conditions"

means Special Conditions J1 to J1~~1~~<sup>2</sup> inclusive together with Schedules A to C to this licence, as from time to time modified or replaced in accordance with the provisions of the Act.

"excluded services"

means those services provided by the licensee as part of its transmission business which in accordance with the principles set out in Part A of Schedule A (Supplementary provisions of the charge restriction conditions), fall to be treated as excluded services.

“interruption payment”

shall, for the purposes of paragraph 10 and 11 of special condition J4 (Restriction on Transmission Charges: Allowed Pass-through Items), have the same meaning as set out in section 11 of the Connection and Use of System Code provided for in paragraph 2 of standard condition C10.

“logged up costs”

means:

~~(a) —~~ for the purposes of paragraphs 3 and 4 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services), those capital expenditure and operating expenditure costs incurred by the licensee in respect of those items referred to in those paragraphs; ~~and~~

~~(b) for the purposes of paragraphs 3 and 7 of special condition J7 (Capital Expenditure Incentive and Safety Net), the capital expenditure incurred by the licensee in respect of those items referred to in those paragraphs.~~

"metered"	means in relation to any quantity of units of electricity transmitted, as measured by a meter installed for such purpose or (where no such meter is installed) as otherwise reasonably calculated.
"network rates"	<p>means:</p> <p>(a) in England and Wales, the rates payable by the licensee in respect of hereditaments on the Central Rating Lists (England and Wales) compiled under section 52 of the Local Government Finance Act 1988; and</p> <p>(b) in Scotland, the rates payable by the licensee in respect of any land and heritages on the Valuation Rolls compiled under the Local Government Scotland Act 1975, the Local Government etc (Scotland) Act 1994, or any legislation amending or replacing those enactments</p>
"notified value"	means, in relation to any term, such value as the Secretary of State shall ascribe to that term in a written notice given to the licensee as soon as practicable after the date of grant of this licence.
"outage change"	has the meaning given in Schedule A.
"regulated transmission revenue"	means the revenue (measured on an accruals basis) derived from the provision of transmission owner services (including to any separate business, other than the transmission business) in the relevant year, after deduction of value added tax (if any) and any other taxes based directly on the amounts so derived.

"relevant year"	means a financial year commencing on or after 1 April 1990.
"relevant year t"	means that relevant year for the purposes of which any calculation falls to be made.
"relevant year t-1"	means the relevant year immediately preceding relevant year t or, in respect of the period prior to 1 April 1990, the period of 12 calendar months commencing on 1 April 1989; and similar expressions shall be construed accordingly.
TIRG relevant year $t$	<p>means, in relation to each transmission investment project <math>i</math> specified in Schedule C, the relevant year in which a revenue allowance falls to be made under Special Condition J3 (Restriction of transmission charges: Transmission Investment for Renewable Generation) with respect to that transmission investment project <math>i</math>:</p> <ul style="list-style-type: none"> <li>(a) <math>t=p</math> means the relevant year commencing on 1 April 2005;</li> <li>(b) <math>t=p</math> to <math>t=-1</math> means the preconstruction period (where <math>p \leq -1</math>);</li> <li>(c) <math>t=0</math> means the relevant year in which construction of that transmission project <math>i</math> commences;</li> <li>(d) <math>t=0</math> to <math>t=n</math> means the construction period;</li> <li>(e) <math>t=n</math> means the relevant year in which that transmission investment project <math>i</math> is commissioned;</li> <li>(f) <math>t=n+1</math> means the relevant year in year 1 post commissioning period for that</li> </ul>



transmission investment project i and similar expressions shall be construed accordingly.

"transmission owner services"

means all services provided as part of the transmission business other than excluded services.

"unit"

means a kilowatt hour.

**Special Condition J2 - Restriction of transmission charges—: revenue from transmission owner services**

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

**Part A: Transmission Owner Revenue Restriction**

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

***Formula for Allowed Transmission Owner Revenue (TO<sub>t</sub>)***

- 3 In respect of the relevant year commencing 1 April 2007~~12~~[12](#) and each subsequent relevant year t, allowed transmission owner revenue shall be calculated in accordance with the following formula:

$$~~TO_t = PR_t + TIRG_t + PT_t + IP_t + CxIncRA_t + IE_t + LC_t + TOInc_t - K_t~~$$

$$TO_t = PR_t + TIRG_t + PT_t + IP_t + CxIncRA_t + LC_t + TOInc_t - K_t$$

where:

TO<sub>t</sub> means allowed transmission owner revenue in the relevant year t.

PR<sub>t</sub> means base transmission revenue which, shall in respect of the relevant year commencing 1 April 2007~~12~~[12](#) and each subsequent year be calculated as:

$$PR_t = RBT \times RPIF_t$$

where:

RBT shall take the value £4785,0600,000 (being in 2009/10 prices). This takes into account a provisional aggregate 2012/13 TII allowance of £101.8m (in 2009/10 prices); and

RPIF<sub>t</sub> is the price index adjustment for the formula 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:

$$\text{RPIF}_t = \text{RPIA}_{t-2} \times (1 + \text{GRPIF}_{t-1}) \times (1 + \text{GRPIF}_t)$$

where:

$$\text{RPIA}_t = \text{RPI}_t / \text{RPI}_{2009-10}$$

$$\text{GRPIF}_t = (0.75 \times \text{GRPIF}_c + 0.25 \times \text{GRPIF}_{c+1})$$

$$\text{GRPIF}_{t-1} = (0.75 \times \text{GRPIF}_{c-1} + 0.25 \times \text{GRPIF}_c)$$

where:

RPI<sub>t</sub> 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 relevant year t.

RPI<sub>2009-10</sub> 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.

GRPIF<sub>c</sub> means the Retail Prices Index Forecast Growth Rate for the calendar year c, where c is the calendar year 2012 and the expressions c-1 and c+1 should be interpreted accordingly. In each such case this information is taken from the November 2011 edition of the HM Treasury publication “Forecasts for the UK Economy”, where Retail Prices Index Forecast Growth Rate means:

(a) the growth rate for the calendar year c as defined as the

“New forecasts (marked \*) in table “M3: Medium term forecasts for CPI and RPI Inflation” set out in the HM Treasury publication “Forecasts for the UK Economy”, 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.

~~PIT<sub>t</sub> is the price index adjustment for the relevant year t, and in the relevant year commencing 1 April 2004 shall take the value of 1 and in each subsequent relevant year shall be derived from the following formula:~~

$$\del{PIT_t = \left[ 1 + \frac{RPI_t}{100} \right] \times PIT_{t-1};}$$

~~and, in the relevant year commencing 1 April 2008 and each subsequent relevant year PR<sub>t</sub> shall be calculated in accordance with the following formula:~~

$$\del{PR_t = PR_{t-1} \times \left( 1 + \frac{RPI_t + X}{100} \right)}$$

~~\_\_\_\_\_ where:~~

~~RPI<sub>t</sub> means the percentage change (whether of a positive or a negative value) in the arithmetic average of the Retail Price Index numbers published or determined with respect to each of the six months from July to December (both inclusive) in relevant year t 2 and the arithmetic average of the Retail Price Index numbers published or determined with respect to the same months in relevant year t 1; and~~

~~X shall take the value of two ("2").~~

TIRG<sub>t</sub> means, for each TIRG relevant year t, the aggregate of the annual revenue allowances for each transmission investment project specified in Schedule C and calculated in accordance with special condition J3 (Restriction of transmission charges: Transmission Investment for Renewable Generation);

PT<sub>t</sub> means the revenue adjustment term, whether of a positive or of a negative value, made in the relevant year t in respect of allowed pass through items as derived in accordance with special condition J4 (Restriction of transmission charges: Allowed pass-through items);

IP<sub>t</sub> means the total amount of incentive revenue, whether of a positive or of a negative value, calculated for the relevant year t in accordance with Special condition J5 (Restriction of transmission charges: Total incentive revenue adjustment);

CxIncRA<sub>t</sub> means the revenue adjustment term, in respect of the application of the capital expenditure incentive regime as determined in accordance with paragraph 1 of special condition J7 (Capital Expenditure Incentive and Safety Net);

~~means the revenue adjustment term, whether of a positive or of a negative value, made in the relevant year commencing 1 April 2012 in respect of the application of the capital expenditure incentive regime as calculated in accordance with special condition J7 (Capital Expenditure Incentive and Safety Net). For each relevant year prior to the relevant year commencing 1 April 2012 and for each relevant year after the relevant year commencing 1 April 2012 the term CxIncRA<sub>t</sub> shall take the value zero.~~

~~IE<sub>t</sub> means the allowance made in respect of the relevant year t representing the estimated costs incurred by the licensee in that relevant year in association with the issuance of new equity and shall take the value set out below:~~

<del>IE<sub>t</sub> in the Relevant Year commencing 1 April</del>	<del>2007</del>	<del>2008</del>	<del>2009</del>	<del>2010</del>	<del>2011</del>
<del>National Grid Electricity Transmission plc</del>	<del>Nil</del>	<del>Nil</del>	<del>Nil</del>	<del>Nil</del>	<del>Nil</del>
<del>Scottish Hydro Electric Transmission Ltd</del>	<del>Nil</del>	<del>Nil</del>	<del>£3,250,000</del>	<del>£2,625,000</del>	<del>Nil</del>
<del>SP Transmission Ltd</del>	<del>Nil</del>	<del>Nil</del>	<del>Nil</del>	<del>£2,500,000</del>	<del>Nil</del>

LC<sub>t</sub> means the revenue adjustment term, whether of a positive or of a negative 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 4 of this condition. For each relevant year prior to the relevant year commencing 1 April 2013 and for each relevant year after the relevant year commencing 1 April 2013 LC<sub>t</sub> shall take the value zero;

TOInc<sub>t</sub> is derived from the following formula:

$$\text{TOInc}_t = \text{CxIncTo}_t \times \text{RPIF}_t$$

where:

CxIncTo<sub>t</sub> is the value of the provisional revenue adjustment for the relevant year t (in 2009/10 prices) due to the application of the capital expenditure incentive on the difference between expenditure incurred and allowance for the years 2009-10 and 2010-11 as calculated in line with the policy set out in

Appendix 2 of the document “Transmission Investment Incentives: decisions on extending the policy framework into 2012-13” published by the Authority on 30 November 2011, and shall take the value set out in the table below

<u>Relevant year t commencing on 1 April</u>	<u>2012</u>
<u>CxIncTo<sub>t</sub></u>	<u>£3,130,000</u>

~~means the revenue adjustment term, whether of a positive or of a negative value, made in the relevant year commencing 1 April 2012 in respect of the full recovery of efficiently incurred logged up costs (adjusted for financing costs) as specified in paragraph 4 of this condition. For each relevant year prior to the relevant year commencing 1 April 2012 and for each relevant year after the relevant year commencing 1 April 2012 LC<sub>t</sub> shall take the value zero.~~

~~TOInc<sub>t</sub> means, for each relevant year t, the aggregate of the annual revenue allowances for each transmission investment project specified in Annex A to special condition J12 (Adjustment to the Transmission Network Revenue Restriction due to Transmission Asset Owner Incentives) and shall be calculated in accordance with that special condition.~~

K<sub>t</sub> means the revenue restriction correction factor, whether of a positive or of a negative value, which is calculated in accordance with the formula below:

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

Where:

$AR_{t-1}$  means, subject to paragraph 3 of special condition J6 (Restriction of transmission charges: adjustments), the regulated transmission revenue in respect of the relevant year t-1, except in the relevant year commencing 1 April 2012 where  $AR_{t-1}$  shall be the regulated transmission revenue in the relevant year commencing 1 April 2011 as calculated in accordance with special condition J2 (Restriction of transmission charges) of this licence in the form in which it was in force at 31 March 2012;

~~means, subject to paragraph 3 of special condition J6 (Restriction of transmission charges: adjustments), the regulated transmission revenue in respect of the relevant year t-1, except in the relevant year commencing 1 April 2007 where  $AR_{t-1}$  shall be the regulated transmission revenue ( $CR_t$ ) in the relevant year commencing 1 April 2006 as calculated in accordance with special condition J (Restriction of transmission charges) of this licence in the form in which it was in force at 31 March 2007.~~

$TO_{t-1}$  means the allowed transmission owner revenue in the relevant year t-1;

~~means the allowed transmission owner revenue in the relevant year t-1 except in the relevant year commencing 1<sup>st</sup> April 2007 where it shall be the maximum regulated transmission revenue ( $TR_t$ ) as defined by special condition J (Restriction of transmission charges) of this licence in the form in which it was in force at 31 March 2007.~~

$I_t$  means the average specified rate (as defined under those words in special condition J1 (Restriction of Transmission Charges: Definitions)) in the relevant year  $t$ , and;

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



(a) where  $(AR_{t-1} - TO_{t-1})$  has a positive value and  $AR_{t-1}$  exceeds  $TO_{t-1}$  by more than two per cent, the value four; and

(b) otherwise it shall take the value zero.

4 ~~For the purposes of paragraph 3,  $LC_t$  shall comprise those costs incurred and reported to the Authority in accordance with standard condition B15 (Price Control Review Information), by the licensee during the period of 1 April 2007 to 31 March 2012 against the following cost categories:~~ ~~or the purposes of paragraph 3,  $LC_t$  shall comprise those costs incurred and reported to the Authority in accordance with standard condition B15 (Price Control Review Information), by the licensee against the following cost categories:~~

(a) Net additional local infrastructure as a result of the licensee constructing a 'firm' (i.e. SQSS compliant) connection as opposed to a 'non-firm' single circuit connection for new generation connections in circumstances where the relevant generator is requesting a connection capacity of less than 100 megawatts;

(b) Upgrading of operational telecommunication systems resulting from the introduction of BT's 21<sup>st</sup> Century Networks programme;

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

## Special Condition J3 – Restriction of transmission charges: Transmission Investment for Renewable Generation

### Part A – TIRG Revenue allowance

- 1 For the purposes of paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services) for each TIRG relevant year t,  $TIRG_t$  shall be calculated in accordance with the following formula:

$$TIRG_t = \sum_{all\ i} TIRG_t^i$$

where  $TIRG_t^i$  means the annual revenue allowance in TIRG relevant year t for each transmission investment project i specified in Schedule C.

- 2 For each TIRG relevant year t, the annual revenue allowance for each transmission investment project i specified in Schedule C shall be calculated in accordance with the following formula:

$$TIRG_t^i = IPTIRG_t^i + TIRGIncAd_t^i + FTIRG_t^i + ETIRG_t^i + ATIRG_t^i$$

where:

$IPTIRG_t^i$  means the annual preconstruction and contingency revenue allowance for the transmission investment project i for the TIRG relevant years  $t=p$  to  $t=-1$  (where  $p \leq -1$ ) and shall be calculated in accordance with paragraph 3.

$TIRGIncAd_t^i$  means the sum of one or more preconstruction and contingency revenue allowance adjustments for a TIRG income adjusting event and each revenue allowance adjustment shall be determined by the Authority (in 2009/10 prices) -in accordance with paragraph 4.

$FTIRG_t^i$  means the annual construction revenue allowance for the transmission investment project i for the TIRG relevant

years t=0 to t=n and shall be calculated in accordance with paragraph 5.

$ETIRG_t^i$  means the annual incentive revenue allowance for the transmission investment project i for the TIRG relevant years t=n+1 to t=n+5 and shall be calculated in accordance with paragraph 7.

$ATIRG_t^i$  means the actual annual revenue allowance for the transmission investment project i for the TIRG relevant years t=n+6 to t=n+20 and shall be determined by the Authority in accordance with paragraph 9.

3 For the purposes of paragraph 2, the term  $IPTIRG_t^i$  shall be calculated in accordance with the following formula:

$$\underline{IPTIRG_t^i = CFTIRG_t^i * RPIF_t}$$
$$\del{IPTIRG_t^i = CFTIRG_t^i * ARPI_t}$$

where:

$CFTIRG_t^i$  means the forecast preconstruction and contingency costs for the transmission investment project i for TIRG relevant years t=p to t=-1 (where  $p \leq -1$ ) and shall have the value specified in Schedule C for each TIRG relevant year t, and where no value is specified in Schedule C for a TIRG relevant year t shall have the value of zero.

~~$ARPI_t$  means the price index adjustment, which in the relevant year commencing 1 April 2004 equals 1, and in all subsequent years is derived from the following formula:~~

~~$$ARPI_t = \left[ 1 + \frac{RPI_t}{100} \right] \times ARPI_{t-1}$$~~

~~where:~~

RPIF<sub>t</sub> shall have the same meaning as in given in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services).

~~RPI<sub>t</sub> means the percentage change (whether of a positive or a negative value) in the arithmetic average of the Retail Price Index numbers published or determined with respect to each of the six months from May to October (both inclusive) in relevant year t-1 and that is published or determined with respect to the same months in relevant year t-2.~~

- 4 (a) For the purposes of this paragraph, a TIRG income adjusting event means an event or circumstance occurring in the preconstruction period that the Authority is satisfied causes costs and/or expenses to be incurred or saved in relation to the transmission investment project  $i$ , where the Authority is satisfied that those costs and/or expenses:
- (i) have resulted in, or are expected to result in, a material increase or decrease to the forecast preconstruction and contingency costs for the transmission investment project  $i$  for TIRG relevant years  $t=p$  to  $t=-1$  (where  $p \leq -1$ ) (CFTIRG <sub>$t$</sub> );
  - (ii) have been, or are expected to be, efficiently incurred or saved; and
  - (iii) can not otherwise be recovered under the TIRG revenue allowance provided under this condition.
- (b) Where the licensee considers, and can provide supporting evidence that, a TIRG income adjusting event has occurred in respect of the transmission investment project  $i$ , then the licensee shall give notice of that event to the Authority as soon as is reasonably practicable after that event has occurred and in any event no longer than 3 months after the end of the TIRG relevant year  $t$  in which that event has occurred (or such later date as the Authority notifies to the licensee for the purposes of this subparagraph).
- (c) A notice provided under subparagraph (b) shall give particulars of:

- (i) the  $TIRG_t$  income adjusting event to which the notice relates and the reason(s) why the licensee considers that event to be a  $TIRG_t$  income adjusting event;
  - (ii) the costs and/or expenses that the licensee can demonstrate have been, or are expected to be, incurred or saved by that event and how the amount of those costs and/or expenses have been calculated;
  - (iii) the amount of any material increase or decrease in the forecast preconstruction and contingency costs for the transmission investment project  $i$  for TIRG relevant years  $t=p$  to  $t=-1$  (where  $p \leq -1$ ) ( $CFTIRG_t$ ) that the licensee can demonstrate have been, or are expected to be, incurred or saved by that event and how the amount of that increase or decrease has been calculated;
  - (iv) the reasons why the licensee considers that the costs and/or expenses can not otherwise be recovered under the TIRG revenue allowance provided by this condition;
  - (v) the amount of any  $TIRGIncAd_t^i$  income adjustment allowance proposed as a consequence of that event and how this  $TIRGIncAd_t^i$  income adjustment allowance has been calculated; and
  - (vi) any other analysis or information which the licensee considers to be relevant to the Authority's assessment of that event.
- (d) Where the Authority receives a notice under subparagraph (b), the Authority shall determine (after consultation with the licensee and such other persons it considers necessary):
- (i) whether a TIRG income adjusting event has occurred in respect of the transmission investment project  $i$ ; and
  - (ii) a  $TIRGIncAd_t^i$  income adjustment allowance in respect of the transmission investment project  $i$ .
- (e) Where the Authority determines under subparagraph (d) that a TIRG income adjusting event has occurred in respect of the transmission investment project  $i$ , the  $TIRGIncAd_t^i$  income adjustment allowance in

respect of the transmission investment project  $i$  determined by the Authority under subparagraph (d) shall be such as to ensure that the financial position and performance of the licensee is, insofar as is reasonably practicable, the same as if that TIRG income adjusting event had not occurred, and in all other cases the  $TIRGIncAd_t^i$  income adjustment allowance in respect of the transmission investment project  $i$  determined by the Authority under subparagraph (d) shall be zero.

- (f) Where the Authority makes a determination under this paragraph, the Authority shall publish a notice stating the  $TIRGIncAd_t^i$  income adjustment allowance for the transmission investment project  $i$  and the reasons for the determination.
- (g) The Authority may revoke a determination made under this paragraph with the consent of the licensee.
- (h) For the purpose of paragraph 2, the term  $TIRGIncAd_t^i$  shall be the  $TIRGIncAd_t^i$  income adjustment allowance for the transmission investment project  $i$  determined by the Authority under subparagraph (d), and where the Authority has not made a determination under subparagraph (d) shall be zero.
- (i) Where the licensee notifies the Authority of a TIRG income adjusting event under subparagraph (b), the licensee shall ensure that the costs and/or expenses that are the subject of that notification are not also notified to the Authority in relation to any other revenue recovery arrangements.

5 For the purposes of paragraph 2, the term  $FTIRG_t^i$  shall be calculated in accordance with the following formula:

$$FTIRG_t^i = \frac{CCTIRG \times (FTIRGC_t^i + AFFTIRG_t^i) \times RPIF_t + (TIRGDepn_t^i + AFFTIRGDepn_t^i) \times RPIF_t}{\cancel{CCTIRG \times (FTIRGC_t^i + AFFTIRG_t^i) \times ARPI_t + (TIRGDepn_t^i + AFFTIRGDepn_t^i) \times R}}$$

where:

CCTIRG means the pre-tax cost of capital in real terms for the

transmission investment project i for each TIRG relevant year t and for the purposes of this special condition shall take the value of eight point eight per cent (8.8%).

$FTIRGC_t^i$  means the average asset value for the transmission investment project i for each of the TIRG relevant years t=0 to t=n and shall be determined as follows:

- (a) where the licensee has not been granted planning consent to build the transmission investment project i,  $FTIRGC_t^i$  shall be zero; and
- (b) where the licensee has been granted planning consent to build the transmission investment project i,  $FTIRGC_t^i$  shall have the value specified in Schedule C for each TIRG relevant year t, and where no value is specified in Schedule C for a TIRG relevant year t shall have the value of zero.

$AFFTIRG_t^i$  means one or more adjustments to the average asset value for the transmission investment project i for the TIRG relevant years t=0 to t=n ( $FTIRGC_t^i$ ) as a result of a TIRG asset value adjusting event and each adjustment shall be determined by the Authority (in 2009/10 prices) in accordance with paragraph 6.

$RPIF_t$  shall have the same meaning as given in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services).

~~$ARPI_t$  shall have the meaning given in paragraph 3.~~

$FTIRGDeprn_t^i$  means the depreciation value for the transmission investment project i for each of the TIRG relevant years t=0 to t=n and shall be determined as follows:

- (a) where the licensee has not been granted planning consent to build the transmission investment project i,  $FTIRGDeprn_t^i$  shall be zero; and
- (b) where the licensee has been granted planning consent to build the transmission investment project i,  $FTIRGDeprn_t^i$  shall have the value specified in schedule C for each TIRG relevant

year t, and where no value is specified in Schedule C for a TIRG relevant year t shall have the value of zero.

$AFFTIRGDepn_t^i$  means one or more adjustments to the depreciation value for the transmission investment project i for the TIRG relevant years  $t=0$  to  $t=n$  ( $FTIRGDepn_t^i$ ) as a result of a TIRG asset value adjusting event and each adjustment shall be determined by the Authority ([in 2009/10 prices](#)) in accordance with paragraph 6.

- 6 (a) For the purpose of this paragraph, a TIRG asset value adjusting event means relevant additional preconstruction works or a relevant amendment to the scope of construction works that the Authority is satisfied is expected to cause costs and/or expenses to be incurred or saved in relation to the transmission investment project i, where the Authority is satisfied that those costs and expenses:
- (i) are expected to result in a material increase or decrease to the average asset value for the transmission investment project i for the TIRG relevant years  $t=0$  to  $t=n$  ( $FTIRGC_t^i$ );
  - (ii) are expected to be efficiently incurred or saved; and
  - (iii) cannot otherwise be recovered under the TIRG revenue allowance provided by this condition.
- (b) For the purposes of subparagraph (a)–
- (i) “relevant additional preconstruction works” means preconstruction works expected to be carried out by the licensee during the TIRG relevant years  $t=0$  to  $t=n$  as a result of the terms and/or conditions of any statutory consent, approval or permission in respect of the transmission investment project i (including but not limited to planning consent); and



- (ii) “relevant amendment to the scope of construction works” means an amendment to the scope of construction works that:
  - (aa) is necessary to comply with the terms and/or conditions of any statutory consent, approval or permission in respect of the transmission investment project i (including but not limited to planning consent); or
  - (bb) is necessary to comply with technical, engineering or planning constraints in respect of the transmission investment project i that are identified by the licensee during preconstruction work.
  
- (c) Where the licensee considers, and can provide supporting evidence that, a TIRG asset value adjusting event has occurred in relation to the transmission investment project i, then the licensee shall give notice of that event to the Authority as soon as is reasonably practicable after that event has occurred and in any event prior to TIRG relevant year  $t=0$  (or at such later date as the Authority notifies to the licensee for the purposes of this subparagraph).
  
- (d) A notice provided under subparagraph (c) shall be accompanied by a statement from independent technical advisors setting out the additional preconstruction works / amended scope of construction works (as appropriate) and a statement from independent auditors setting out that in their opinion the notice fairly presents the costs and expenses expected to be incurred or saved by the additional preconstruction works / amended scope of construction works (as appropriate) and shall give particulars of:
  - (i) the TIRG asset value adjusting event to which the notice relates and the reason(s) why the licensee considers that event to be a TIRG asset value adjusting event;
  
  - (ii) the costs and/or expenses that the licensee can demonstrate are expected to be incurred or saved by that event and how the amount of those costs and/or expenses have been calculated;

- (iii) the amount of any material increase or decrease in the average asset value for the transmission investment project  $i$  for TIRG relevant years  $t=0$  to  $t=n$  ( $FTIRGC_t$ ) that the licensee can demonstrate is expected to occur as a result of that event and how the amount of that increase or decrease has been calculated;
  - (iv) the reasons why the licensee considers that the costs and/or expenses can not otherwise be recovered under the TIRG revenue allowance provided by this condition;
  - (v) the amount of any  $AFFTIRG_t^i$  adjustment proposed as a consequence of that event and how this  $AFFTIRG_t^i$  adjustment has been calculated;
  - (vi) the amount of any increase or decrease in the depreciation value for the transmission investment project  $i$  for the TIRG relevant years  $t=0$  to  $t=n$  ( $FTIRGDepn_t^i$ ) that the licensee can demonstrate is expected to occur as a result of that event and how the amount of that increase or decrease has been calculated;
  - (vii) the amount of any  $AFFTIRGDepn_t^i$  adjustment proposed as a consequence of that event and how this  $AFFTIRGDepn_t^i$  adjustment has been calculated; and
  - (viii) any other analysis or information which the licensee considers to be relevant to the Authority's assessment of that event.
- (e) Where the Authority receives a notice under subparagraph (c), the Authority shall determine (after consultation with the licensee and such other persons it considers necessary):
- (i) whether a TIRG asset value adjusting event has occurred in respect of the transmission investment project  $i$ ;
  - (ii) where the Authority determines that a TIRG asset value adjusting event has occurred in respect of the transmission investment project  $i$ , whether the transmission investment

project i will remain economically efficient as a consequence of that TIRG asset value adjusting event;

- (iii) a  $AFFTIRG_t^i$  adjustment in respect of the transmission investment project i;. and
  - (iv) a  $AFFTIRGDepn_t^i$  adjustment in respect of the transmission investment project i.
- (f) Where the Authority determines under subparagraph (e) that a TIRG asset value adjusting event has occurred in respect of the transmission investment project i and that the transmission investment project i will remain economically efficient as a consequence of that TIRG asset value adjusting event, the  $AFFTIRG_t^i$  and  $AFFTIRGDepn_t^i$  adjustments in respect of the transmission investment project i determined by the Authority under subparagraph (e) shall be such as to ensure that the financial position and performance of the licensee is, insofar as is reasonably practicable, the same as if that TIRG asset value adjusting event had not occurred, and in all other cases the  $AFFTIRG_t^i$  and  $AFFTIRGDepn_t^i$  adjustments in respect of the transmission investment project i determined by the Authority under subparagraph (e) shall be zero.
- (g) Where the Authority makes a determination under this paragraph, the Authority shall publish a notice stating the  $AFFTIRG_t^i$  and  $AFFTIRGDepn_t^i$  adjustments for the transmission investment project i and the reasons for the determination.
- (h) The Authority may revoke a determination made under this paragraph with the consent of the licensee.
- (i) For the purpose of paragraph 5, the terms  $AFFTIRG_t^i$  and  $AFFTIRGDepn_t^i$  shall be the  $AFFTIRG_t^i$  and  $AFFTIRGDepn_t^i$  adjustments for the transmission investment project i determined by the Authority under subparagraph (e), and where the Authority has not made a determination under subparagraph (e) shall be zero.
- (j) Where the licensee notifies the Authority of a TIRG asset value adjusting event under subparagraph (c), the licensee shall ensure that the costs and/or expenses that are the subject of that notification are not also notified to the Authority in relation to any other revenue recovery arrangements.

7 For the purpose of paragraph 2, the term  $ETIRG_t^i$  shall be calculated in accordance with the following formula:

$$ETIRG_t^i = (CCTIRG \times (ETIRGC_t^i \times SAFRTIRG^i) \times \text{ARPIRPIF}_t) + (\text{Dep}_t^i \times SAFRTIRG^i \times \text{ARPIRPIF}_t)$$

where:

**CCTIRG** shall have the meaning given in paragraph 5.

**ETIRGC<sub>t</sub><sup>i</sup>** means the average asset value for the transmission investment project i for each of the TIRG relevant years t=n+1 to t=n+5 and shall have the value specified in Schedule C for each TIRG relevant year t, and where no value is specified in Schedule C for a TIRG relevant year t shall have the value of zero.

**SAFRTIRG<sup>i</sup>** means an adjustment factor to the average asset value for the transmission investment project i for each of the TIRG relevant years t=n+1 to t=n+5 ( $ETIRGC_t$ ) and shall have the value of 1 unless otherwise determined by the Authority by TIRG relevant year t=n+1 in accordance with the following formula:

$$SAFRTIRG^i = [\text{SAFTIRG}^i / \text{ETIRGORAV}^i]$$

where:

**SAFTIRG<sup>i</sup>** means the opening asset value for the transmission investment project i determined by the Authority by TIRG relevant year t=n+1 in accordance with paragraph 8.

**ETIRGORAV<sup>i</sup>** means the opening regulated asset value for the transmission investment project i at TIRG relevant year t=n+1 and shall have the value specified in Schedule C.

RPIF<sub>t</sub> shall have the same meaning as in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services).

~~ARPI<sub>t</sub>~~ shall have the meaning given in paragraph 3.

Dep<sub>t</sub><sup>i</sup> means the annual depreciation allowance for TIRG relevant year t and shall have the value specified in Schedule C.

8 (a) The Authority shall determine (in consultation with the licensee and such other persons it considers necessary) the value of the term SAFTIRG<sup>i</sup> with respect to the transmission investment project i by TIRG relevant year t=n+1 where the Authority has received a post construction expenditure report and a post construction technical report in respect of the transmission investment project i in accordance with paragraph 10.

(b) Where the Authority makes a determination under this paragraph, the Authority shall have regard to the following:

(i) whether the final aggregate transmission investment expenditure set out in the post construction expenditure report has been efficiently incurred;

(ii) the extent to which the licensee has complied with the output measures specified in Schedule C for the transmission investment project i as set out in the post construction technical report;

(iii) whether an adjustment has been made to the average asset value for the transmission investment project i for the TIRG relevant years t=0 to t=n under paragraph 6 (AFFTIRG<sub>t</sub><sup>i</sup> adjustment);

(iv) whether an adjustment has been made to the depreciation value for the transmission investment project i for the TIRG relevant years t=0 to t=n under paragraph 6 (AFFTIRGDepn<sub>t</sub><sup>i</sup> adjustment); and

(v) any other information the Authority considers to be relevant to the determination.

(c) Where the Authority makes a determination under this paragraph, the

Authority shall publish a notice stating the SAFTIRG<sup>i</sup> opening asset value for the transmission investment project i and the reasons for the determination.

- (d) The Authority may revoke a determination made under this paragraph with the consent of the licensee.

- 9 For the purposes of paragraph 2, the term ATIRG<sub>t</sub><sup>i</sup> shall be determined by the Authority (in consultation with the licensee and such other persons the Authority considers necessary) by TIRG relevant year  $t=n+5$  in accordance with the principle that efficiently incurred costs shall be recoverable by the licensee.

**Part B: Information to be provided to the Authority in connection with Transmission Investment for Renewable Generation**

- 10 For each transmission investment project i specified in Schedule C, the licensee shall provide the Authority with the following:

- (a) during or prior to TIRG relevant year  $t=0$ , a preconstruction technical report, accompanied by a statement from independent technical advisors, setting out:
  - (i) the TIRG <sub>$t=0$</sub>  output measures assessed against the forecast output measures in Schedule C for the transmission investment project i; and
  - (ii) the TIRG <sub>$t=n$</sub>  forecast output measures assessed against the forecast output measures in Schedule C for the transmission investment project i;
- (b) not later than three months after the end of each of the TIRG relevant years  $t=p$  to  $t=0$  (or such later date as the Authority notifies to the licensee for the purposes of this subparagraph), a preconstruction expenditure report, accompanied by an auditor's statement, setting out an itemised report of the preconstruction expenditure incurred for the transmission investment project i during that TIRG relevant year t;
- (c) not later than three months after the end of each of the TIRG relevant years  $t=1$  to  $t=n$  (or such later date as the Authority notifies to the licensee for

the purposes of this subparagraph), a construction expenditure report accompanied by an auditor's statement, setting out an itemised report of the construction expenditure incurred for the transmission investment project i during that TIRG relevant year t; and

- (d) not later than three months after the end of TIRG relevant year t=n (or such later date as the Authority notifies to the licensee for the purposes of this subparagraph):
  - (i) a post construction expenditure report, accompanied by an independent auditor's statement, setting out the final aggregate transmission investment expenditure for the transmission investment project i, assessed against the average asset value for the transmission investment project i for TIRG relevant years t=0 to t=n (FTIRGC<sub>t</sub>); and
  - (ii) a post construction technical report, accompanied by a construction completion certificate from independent technical advisors, setting out the actual capability of the transmission investment project i and the extent to which the transmission investment project i complies with the output measures specified in Schedule C.

11 The Authority may require the licensee to provide it with such information in such form and within such time as it may reasonably request which is, in the Authority's opinion, necessary in order to carry out any of its functions under this condition.

12 (a) The output measures specified in Schedule C may be amended in accordance with this paragraph.

(b) For the purpose of this paragraph, an output measures adjusting event means a relevant amendment to the scope of the construction works (as defined in paragraph (6)(b)(ii)) of this condition which the Authority is satisfied is expected to cause a material change in the output measures specified in schedule C for the transmission investment project i.

(c) Where the licensee considers, and can provide supporting evidence that, an output measures adjusting event has occurred in relation to the

transmission investment project i, then the licensee shall give notice of that event to the Authority as soon as is reasonably practicable after that event has occurred and in any event prior to TIRG relevant year  $t=0$  (or at such later date as the Authority notifies to the licensee for the purposes of this subparagraph).

- (d) A notice provided under subparagraph (c) shall be accompanied by a statement from independent technical advisors setting out the amended scope of construction works and shall give particulars of:
  - (i) the output measures adjusting event to which the notice relates and the reason(s) why the licensee considers that event to be an output measures adjusting event;
  - (ii) output measures adjustment proposed as a consequence of that event and how this output measures adjustment has been calculated; and
  - (iii) any other analysis or information which the licensee considers to be relevant to the Authority's assessment of that event.
  
- (e) Where the Authority receives a notice under subparagraph (c), the Authority shall determine (after consultation with the licensee and such other persons it considers necessary):
  - (i) whether an output measures adjusting event has occurred in respect of the transmission investment project i; and
  - (ii) where the Authority determines that a output measures adjusting event has occurred in respect of the transmission investment project i, an output measures adjustment in respect of the transmission investment project.
  
- (f) Where the Authority makes a determination under this paragraph, the Authority shall publish a notice stating the output measures adjustment for the transmission investment project i and the reasons for the determination.
  
- (g) The Authority may revoke a determination made under this paragraph with the consent of the licensee.



**Special Condition J4 – Restriction of transmission charges: Allowed pass-through items**

1. The purpose of this condition is to provide for revenue adjustments to reflect certain costs that can be passed through to consumers as part of allowed transmission owner revenue.
2. For the purposes of paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services)  $PT_t$  is derived from the following formula:

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

Where

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

$RB_t$  means the network rates revenue adjustment term, whether of a positive or of a negative value, as derived from the formula set out in paragraphs 4 to 6.

$IAT_t$  means the income adjusting event revenue adjustment term, whether of a positive or of a negative value, and shall be determined in accordance with paragraphs 7 to 9

$TPD_t$  means the temporary physical disconnection term and shall be determined in accordance with paragraphs 10 to 11.

**Formula for the Licence Fee Revenue Adjustment ( $LF_t$ )**

3. For the purposes of paragraph 2,  $LF_t$  is an amount calculated in accordance with the following formula:

$$LF_t = LP_t - LA_t$$

Where:

LP<sub>t</sub> is an amount in respect of licence fee payments and means the amount equal to the payments made by the licensee, in the relevant year t, in accordance with its obligations set out in standard licence condition A4 (Payments to the Authority); and

LA<sub>t</sub> is the amount of the licence fee payments allowance and has the value zero.

**Formula for the Network Rates Revenue Adjustment (RB<sub>t</sub>)**

4. For the purposes of paragraph 2, ~~subject to paragraph 5 below,~~ RB<sub>t</sub> is an amount calculated in accordance with the following formula:

$$RB_t = RP_t - RA_t$$

where:

RP<sub>t</sub> is the amount payable by the licensee, in respect of the relevant year t, in respect of network rates.

RA<sub>t</sub> is the network rates allowance, and is derived from the following formula:

$$RA_t = RV_t \times RPIF_t$$

where:

RV<sub>t</sub> is the network rates allowance in 2004~~9~~/~~05~~10 prices, and shall take the value set out in the table below:

Relevant year t commencing on 1 April	20 <del>07</del> 12
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RV <sub>t</sub>	£38,570,000
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RPIF<sub>t</sub> shall take the same meaning as given in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services).

~~PIT<sub>t</sub> shall take the same meaning as given in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services)~~

5. ~~From the relevant year commencing 1 April 2010 RB<sub>t</sub> shall take the value zero, unless otherwise directed by the Authority on or before 31 March 2010. not used~~
6. ~~For the purposes of paragraph 5 of this condition, the Authority may direct that, in respect of the relevant year commencing 1 April 2010 and each subsequent relevant year, RB<sub>t</sub> be calculated in accordance with the formula set out in paragraph 4 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 network rates. not used~~

***Formula for a revenue adjustment in respect of an Income Adjusting Event (IAT<sub>t</sub>)***

7. (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 is approved by it as such in accordance with paragraph 9 of this licence condition

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

~~(b) For the purpose of the relevant year t commencing on 1 April 2007 and ending on~~

~~31 March 2008 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 7(a) above:~~

**Table 1:**

<b>Amendment No.</b>	<b>Amendment Title</b>

8. (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 8(a) shall give particulars of:
  - (i) the event to which the notice relates and the reason(s) why the licensee considers this event to be an income adjusting event;
  - (ii) the amount of any change in costs and/or expenses that can be demonstrated by the licensee to have been caused or saved by the event

and how the amount of these costs and/or expenses has been calculated;

(iii) the amount of any allowed income adjustment proposed as a consequence of that event and how this allowed income adjustment has been calculated; and

(iv) any other analysis or information which the licensee considers to be sufficient to enable the Authority and the relevant parties referred to in subparagraph 8(a) to fully assess the event to which the notice relates.

(c) If the Authority considers that the analysis or information provided in subparagraphs 8(b)(i) to 8(b)(iv) above is insufficient to enable both the Authority and the relevant parties referred to in subparagraph 8(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 8(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 subparagraph 8(f)(i) is necessary for the purposes of enabling the relevant parties to fully assess the event to which the notice relates.

9. (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 8(a) were caused or saved by an income adjusting event;
  - (ii) whether the event or circumstance has increased or decreased the relevant costs and/or expenses by more than the STC threshold amount;
  - (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 9(a) above; or
  - (ii) if the Authority has not made a determination under paragraph 9(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 8(b)(iii); or
  - (iii) in all other cases zero, including situations where the Authority has not made a determination under paragraph 9(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 8(b) and/or 8(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 8(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.

**Formula for the Temporary Physical Disconnection Term (TPDt)**

~~10. For the purposes of paragraph 2, for the relevant year t commencing 1 April 2007, TPDt shall be an amount equal to the costs incurred in relation to interruption payments made by the system operator in the licensee's transmission area and charged by the system operator to the transmission licensee in accordance with the STC in respect of the period commencing 1 April 2005 and ending 31 March 2007. Such costs shall include any financing or other costs such as to ensure that the financial position and performance of the licensee is, insofar as is reasonably practicable, the same as if those costs had not been incurred.~~

~~11.~~ 10. For the relevant year t commencing 1 April 2010~~08~~2 and each subsequent relevant year t, TPDt shall be an amount equal to the costs incurred in relation to interruption payments made by the system operator in the licensee's transmission area and charged by the system operator to the transmission licensee in accordance with the STC within each respective relevant year t-1. Such costs shall include any financing or other costs such as to ensure that the financial position and performance of the licensee is, insofar as is reasonably practicable, the same as if those costs had not been incurred.

## Special Condition J5 - Restriction of transmission charges: Total incentive revenue adjustment

1. For the purposes of paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services),  $IP_t$  is derived from the following formula:

$$IP_t = RI_t + \text{RevDrvSP}_t + IFI_t + SFI_t + \text{RCI}_t + \text{RevApOx}_t$$

where

$RI_t$  means the revenue adjustment term, whether of a positive (subject to paragraph 3) 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.

~~$\text{RevDrvSHE}_t$  means the adjustment to revenues pursuant to variations between actual and assumed volumes of connected generation and demand and shall be calculated in accordance with Part 2 of this condition.~~

$IFI_t$  means the revenue adjustment term in respect of expenditure pursuant to the Innovation Funding Incentive and shall be calculated in accordance with Part 3 of this condition.

$SFI_t$  means the revenue adjustment term in respect of rates of leakage of SF6 and shall be calculated in accordance with Part 4 of this condition.

~~$\text{RCI}_t$  means the revenue adjustment term in the relevant year  $t$  in respect of the five year rolling capital and operating cost incentive mechanisms calculated in accordance with Part 5 of this condition.~~

~~$\text{RevApOx}_t$  means the revenue adjustment term in respect of approved operating costs calculated in accordance with Part 6 of this condition.~~

### 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 be the value of  $PR_t$  calculated in accordance with the formula specified in paragraph 3 of Special Condition J2 (Restriction of transmission charges: revenue from transmission owner services) in respect of the relevant year t-1.

$RAF_y$  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 event target in respect of incentive period y, which is the number of events specified in the

following table:

<u>Relevant year t</u>	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14</u>
<u>Incentive Period y</u>	<u>1 January 2006 to 31 March 2007</u>	<u>1 April 2007 to 31 March 2008</u>	<u>1 April 2008 to 31 March 2009</u>	<u>1 April 2009 to 31 March 2010</u>	<u>1 April 2010 to 31 March 2011</u>	<u>1 April 2011 to 31 March 2012</u>	<u>1 April 2012 to 31 March 2013</u>
<u>RILT<sub>y</sub></u>	<u>14</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>

<u>Relevant year t</u>	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>	<u>2012/13</u>
<u>Incentive Period y</u>	<u>1 January 2006 to 31 March 2007</u>	<u>1 April 2007 to 31 March 2008</u>	<u>1 April 2008 to 31 March 2009</u>	<u>1 April 2009 to 31 March 2010</u>	<u>1 April 2010 to 31 March 2011</u>	<u>1 April 2011 to 31 March 2012</u>	<u>1 April 2011 to 31 March 2012</u>
<u>RIUT<sub>y</sub></u>	<u>14</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>

RIUT<sub>y</sub> is the upper incentivised loss of supply event target in respect of incentive period y, which is the number of events specified in the following table:

<u>Relevant year t</u>	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14</u>
<u>Incentive Period y</u>	<u>1 January 2006 to 31 March 2007</u>	<u>1 April 2007 to 31 March 2008</u>	<u>1 April 2008 to 31 March 2009</u>	<u>1 April 2009 to 31 March 2010</u>	<u>1 April 2010 to 31 March 2011</u>	<u>1 April 2011 to 31 March 2012</u>	<u>1 April 2012 to 31 March 2013</u>
<u>RIUT<sub>y</sub></u>	<u>16</u>	<u>12</u>	<u>12</u>	<u>12</u>	<u>12</u>	<u>12</u>	<u>12</u>

<u>Relevant year t</u>	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>	<u>2012/13</u>
<u>Incentive Period y</u>	<u>1 January 2006 to 31 March 2007</u>	<u>1 April 2007 to 31 March 2008</u>	<u>1 April 2008 to 31 March 2009</u>	<u>1 April 2009 to 31 March 2010</u>	<u>1 April 2010 to 31 March 2011</u>	<u>1 April 2011 to 31 March 2012</u>	<u>1 April 2011 to 31 March 2012</u>

<b>RIUT<sub>y</sub></b>	<b>16</b>	<b>12</b>	<b>12</b>	<b>12</b>	<b>12</b>	<b>12</b>
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RIUPA<sub>y</sub> 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:

<b>Relevant year t</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
<b>Incentive Period y</b>	<b>1 January 2006 to 31 March 2007</b>	<b>1 April 2007 to 31 March 2008</b>	<b>1 April 2008 to 31 March 2009</b>	<b>1 April 2009 to 31 March 2010</b>	<b>1 April 2010 to 31 March 2011</b>	<b>1 April 2011 to 31 March 2012</b>
<b>RIUPA<sub>y</sub></b>	<b>0.50%</b>	<b>0.50%</b>	<b>0.50%</b> <b>(subject to paragraph 3)</b>	<b>0.50%</b> <b>(subject to paragraph 3)</b>	<b>0.50%</b> <b>(subject to paragraph 3)</b>	<b>0.50%</b> <b>(subject to paragraph 3)</b>

<u>Relevant year t</u>	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14</u>
<u>Incentive Period y</u>	<u>1 January 2006 to 31 March 2007</u>	<u>1 April 2007 to 31 March 2008</u>	<u>1 April 2008 to 31 March 2009</u>	<u>1 April 2009 to 31 March 2010</u>	<u>1 April 2010 to 31 March 2011</u>	<u>1 April 2011 to 31 March 2012</u>	<u>1 April 2012 to 31 March 2013</u>
<u>RIUPA<sub>y</sub></u>	<u>0.50%</u>	<u>0.50%</u>	<u>0.50%</u>	<u>0.50%</u>	<u>0.50%</u>	<u>0.50%</u>	<u>0.50%</u> <u>(subject to paragraph 3)</u>

RIDPA<sub>y</sub> is the maximum downside percentage adjustment in respect of incentive period y, which has the value as specified in the following table:

<u>Relevant year t</u>	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14</u>
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<u>Incentive Period</u> $y$	<u>1 January</u> <u>2006 to 31</u> <u>March</u> <u>2007</u>	<u>1 April</u> <u>2007 to 31</u> <u>March</u> <u>2008</u>	<u>1 April</u> <u>2008 to 31</u> <u>March</u> <u>2009</u>	<u>1 April</u> <u>2009 to 31</u> <u>March</u> <u>2010</u>	<u>1 April</u> <u>2010 to</u> <u>31 March</u> <u>2011</u>	<u>1 April</u> <u>2011 to</u> <u>31 March</u> <u>2012</u>	<u>1 April</u> <u>2012 to</u> <u>31 March</u> <u>2013</u>
<u>RIDPA</u> $y$	<u>-0.75%</u>	<u>-0.75%</u>	<u>-0.75%</u>	<u>-0.75%</u>	<u>-0.75%</u>	<u>-0.75%</u>	<u>-0.75%</u>

<u>Relevant year</u> $t$	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>
<u>Incentive Period</u> $y$	<u>1 January</u> <u>2006 to 31</u> <u>March 2007</u>	<u>1 April</u> <u>2007 to 31</u> <u>March 2008</u>	<u>1 April</u> <u>2008 to 31</u> <u>March 2009</u>	<u>1 April</u> <u>2009 to 31</u> <u>March 2010</u>	<u>1 April</u> <u>2010 to 31</u> <u>March 2011</u>	<u>1 April</u> <u>2011 to 31</u> <u>March 2012</u>
<u>RIDPA</u> $y$	<u>-0.75%</u>	<u>-0.75%</u>	<u>-0.75%</u>	<u>-0.75%</u>	<u>-0.75%</u>	<u>-0.75%</u>

$RICOL_y$  is the incentivised loss of supply collar in respect of incentive period  $y$  which is the number of events specified in the following table:

<u>Relevant year</u> $t$	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>
<u>Incentive Period</u> $y$	<u>1 January</u> <u>2006 to 31</u> <u>March 2007</u>	<u>1 April</u> <u>2007 to 31</u> <u>March 2008</u>	<u>1 April</u> <u>2008 to 31</u> <u>March 2009</u>	<u>1 April</u> <u>2009 to 31</u> <u>March 2010</u>	<u>1 April</u> <u>2010 to 31</u> <u>March 2011</u>	<u>1 April</u> <u>2011 to 31</u> <u>March 2012</u>
<u>RICOL</u> $y$	<u>37</u>	<u>27</u>	<u>27</u>	<u>27</u>	<u>27</u>	<u>27</u>

<u>Relevant year</u> $t$	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14</u>
<u>Incentive Period</u> $y$	<u>1 January</u> <u>2006 to 31</u> <u>March</u> <u>2007</u>	<u>1 April</u> <u>2007 to 31</u> <u>March</u> <u>2008</u>	<u>1 April</u> <u>2008 to 31</u> <u>March</u> <u>2009</u>	<u>1 April</u> <u>2009 to 31</u> <u>March</u> <u>2010</u>	<u>1 April</u> <u>2010 to</u> <u>31 March</u> <u>2011</u>	<u>1 April</u> <u>2011 to</u> <u>31 March</u> <u>2012</u>	<u>1 April</u> <u>2012 to</u> <u>31 March</u> <u>2013</u>
<u>RICOL</u> $y$	<u>37</u>	<u>27</u>	<u>27</u>	<u>27</u>	<u>27</u>	<u>27</u>	<u>27</u>

$RIP_y$  is the number of incentivised loss of supply events in incentive period  $y$ .

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

3. ~~For the purposes of calculating RAFy, RIUPAy 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, RIUPAy 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.~~ Not used
  
4. For the purposes of this 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;
  - (b) any unsupplied energy resulting from a shortage of available generation;
  - (c) any unsupplied energy resulting from a user’s request for disconnection in accordance with the Grid Code;
  - (d) any unsupplied energy resulting from emergency de-energisation of part of the licensee's transmission system, either as a consequence of a user's request for emergency de-energisation of its equipment or the user carrying out an emergency de-energisation of its equipment;
  - (e) any unsupplied energy resulting from a planned outage as defined in the Grid Code;
  - (f) any unsupplied energy resulting from a de-energisation or disconnection of a user’s equipment necessary to ensure compliance with an instruction by the system operator to the licensee pursuant to the STC; 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.

5. For the purpose of paragraph 4, 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.

6. 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 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 number of incentivised loss of supply events in incentive period y shall be adjusted as specified in that direction.

7. For the purpose of paragraph 6, 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).

8. A direction under paragraph 6 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.

9. For the purpose of paragraph 6, 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 7 faults being recorded by the licensee on the licensee’s transmission system in any 24 hour period, 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.

## Part 2 – ~~Revenue Drivers~~Not used

- ~~10. For the purposes of paragraph 1, the maximum revenue allowed to the licensee as a consequence of works to accommodate generation seeking connection in respect of relevant year t (RevDrvSHE<sub>t</sub>) shall be derived in accordance with this condition, where:~~

~~relevant generation~~

~~capacity~~ ~~means the cumulative amount of generation connection capacity connected to a part of the licensee’s transmission system or connected to a distribution system which in turn connects directly to a part of the licensee’s transmission system (but excluding high cost projects) for which attributable transmission reinforcement works are completed and commissioned (in accordance with the System Operator Transmission Owner Code, STC) after 31 March 2005;~~

~~generation connection~~

~~capacity~~ means the connection capacity that transmission reinforcement works have been contracted and constructed to deliver in the relevant Transmission Operator Connection Agreements between the licensee and the system operator pursuant to the STC;

~~relevant embedded~~

~~generation capacity~~ means the total registered capacity of Small Power Stations (as defined in the Grid Code) connected to a distribution system which in turn connects directly to a part of the licensee's transmission system, for which attributable distribution connection works are completed and commissioned after 31 March 2005, as reported by the GB System Operator to the licensee in the most recent Week 24 report provided in accordance with its obligations under the STC;

~~high cost project~~ means local infrastructure works where the licensee, estimates, using reasonable endeavours, that the capital expenditure incurred in completing the relevant set of local infrastructure works will exceed £130,000 (in 2004/05 prices) per megawatt of predicted capacity;

~~local infrastructure works~~ means sole user triggered transmission reinforcement works associated with the connection of new or additional generation capacity to a part of the licensee's transmission system (or connected to a distribution system which in turn connects to a part of the licensee's transmission system) as specified in relevant agreements between the licensee and the system operator pursuant to the STC; and

~~deep reinforcement works~~ means infrastructure works other than local infrastructure works as specified in relevant agreements between the licensee and the system operator pursuant to the STC.



~~11. For the purposes of paragraph 1, RevDrvSHE<sub>t</sub> shall be calculated in accordance with the following formula:~~

$$\text{RevDrvSHE}_t = \left[ \text{RDDep}_t + \left( \left( \frac{\text{RDO}_t + \text{RDC}_t}{2} \right) \times \text{RDRet} \right) + \left( \text{RDGAV}_t \times 0.01 \right) \right] \times \text{PIT}_t$$

~~where:~~

~~RDDep<sub>t</sub> means an allowance, expressed in 2004/05 prices, for depreciation in relevant year t and shall be calculated in accordance with the formula below:~~

$$\text{RDDep}_t = 0.05 \times \text{RDGAV}_t$$

~~RDO<sub>t</sub> means the value, expressed in 2004/05 prices, of the revenue driver RAV on 1 April of the relevant year t and shall, in respect of the relevant year commencing 1 April 2007 take a value of zero. In respect of the relevant year commencing 1 April 2008 and each subsequent relevant year t, RDO<sub>t</sub> shall be calculated in accordance with the following formula:~~

$$\text{RDO}_t = \text{RDC}_{t-1}$$

~~RDC<sub>t</sub> means the value, expressed in 2004/05 prices, of the revenue driver RAV on 31 March of the relevant year t. In the relevant year commencing 1 April 2007 and in each subsequent relevant year RDC<sub>t</sub> shall be calculated in accordance with the following formula:~~

$$\text{RDC}_t = \text{RDO}_t + \text{RAdd}_t - \text{RDDep}_t$$

~~where~~

~~RAdd<sub>t</sub> means the total additions, expressed in 2004/05 prices, to the revenue driver RAV that occur during in relevant year t and shall be calculated in accordance with the~~

formula in paragraph 12 of this condition.

~~RDRet~~ means the pre-tax rate of return expressed in real terms allowed on the revenue driver RAV and, for the purposes of this condition, shall take a value of 6.25% for all relevant years.

~~RDGAV<sub>t</sub>~~ means the cumulative gross value of the Revenue driver RAV, expressed in 2004/05 prices, as at 31 March in relevant year t-1 and shall be calculated in accordance with the following formula:

$$\text{RDGAV}_t = \sum_{p=t-z}^{p=t-1} \text{RDAdd}_p$$

where:

p shall mean the relevant year commencing 1 April;

~~RDAdd<sub>p</sub>~~ shall take the value of ~~RDAdd<sub>t</sub>~~ for relevant year t=p, where ~~RDAdd<sub>t</sub>~~ shall take the same meaning as given in the definition of ~~RDC<sub>t</sub>~~ above;

~~p=t-z~~ means the relevant year commencing 1 April 2004; and

~~PIT<sub>t</sub>~~ shall take the same meaning as given in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services).

12. The term ~~RDAdd<sub>t</sub>~~ shall be calculated in accordance with the following conditions:

~~If  $RG_{t-2} \leq 1489 < RG_{t-1}$  then:~~

$$\begin{aligned} \text{RDAdd}_t = & \left( \frac{RG_{t-1} - 1489}{RG_{t-1} - RG_{t-2}} \right) \times \left( 0.75 \times \left( \text{RDCLCpx}_t - \left( + \text{RDRet} \right) \times \text{RDCLCpx}_{t-1} \right) \right. \\ & + \left( RG_{t-1} - 1489 \right) \times \left( \text{LRD} \times 1.13 \right) \times 0.25 \\ & + 0.75 \times \left( \text{RDCDCpx}_t - \left( + \text{RDRet} \right) \times \text{RDCDCpx}_{t-1} \right) \\ & + \sum_c \left( \text{Flag}_{c,t} \times \left( \text{ORD}_c \times 1.13 \right) \times 0.25 \right) \\ & + \sum_h \frac{\text{RDHCP}_{h,t}}{\text{PIT}_t} \end{aligned}$$

~~If  $1489 < RG_{t-2} \leq RG_{t-1}$ , then:~~

$$\begin{aligned} R\text{DAdd}_t &= 0.75 \times \left( \text{RDCLCpx}_t - \left( + \text{RDRet} \right) \times \text{RDCLCpx}_{t-1} \right) \\ &\quad + \left( RG_{t-1} - RG_{t-2} \right) \times \left( \text{RD} \times 1.13 \right) \times 0.25 \\ &\quad + 0.75 \times \left( \text{RDCDCpx}_t - \left( + \text{RDRet} \right) \times \text{RDCDCpx}_{t-1} \right) \\ &\quad + \sum_c \left( \text{Flag}_{c,t} \times \left( \text{ORD}_c \times 1.13 \right) \times 0.25 \right) \\ &\quad + \sum_h \frac{\text{RDHCP}_{h,t}}{\text{PIT}_t} \end{aligned}$$

~~In all other cases:~~

$$\begin{aligned} R\text{DAdd}_t &= 0.75 \times \left( \text{RDCDCpx}_t - \left( + \text{RDRet} \right) \times \text{RDCDCpx}_{t-1} \right) \\ &\quad + \sum_c \left( \text{Flag}_{c,t} \times \left( \text{ORD}_c \times 1.13 \right) \times 0.25 \right) \\ &\quad + \sum_h \frac{\text{RDHCP}_{h,t}}{\text{PIT}_t} \end{aligned}$$

~~where:~~

~~$RG_{t-1}$  means the relevant generation capacity as at 31 March of relevant year t-1;~~

~~$RG_{t-2}$  means the relevant generation capacity as at 31 March of relevant year t-2;~~

~~$\text{RDCLCpx}_t$  means the cumulative capital expenditure, expressed in 2004/05 prices, (adjusted for financing costs) incurred by the licensee prior to 1 April of relevant year t in respect of local RD qualifying projects for relevant year t, and shall be calculated in accordance with the formula in paragraph 14;~~

~~$\text{RDCLCpx}_{t-1}$  is equal to the value of  $\text{RDCLCpx}_t$  for the preceding relevant year;~~

~~local RD qualifying project means local infrastructure works being undertaken by the licensee:~~

~~(a) which result, or have resulted, in the volume of relevant generation first exceeding 1489 megawatts;~~

~~or~~

~~(b) will be, or have been, completed and commissioned after the point at which the volume of relevant generation is equal to or exceeds 1489 megawatts;~~

~~to provide generation connection capacity where the licensee has, or will have, prior to 1 April of relevant year t, committed to spend not less than 25 per cent of the capital expenditure that it estimates, using reasonable endeavours, will be incurred in completing the set of relevant local infrastructure works;~~

~~LRD~~ shall take the value £32,000 (expressed in 2004/05 prices);

~~RDCDCpx<sub>t</sub>~~ means the cumulative capital expenditure, (expressed in 2004/05 prices) incurred by the licensee prior to 1 April of relevant year t in respect of deep RD qualifying projects;

~~RDCDCpx<sub>t-1</sub>~~ is equal to the value of RDCDCpx<sub>t</sub> for the preceding relevant year;

~~deep RD qualifying~~

~~project~~ means deep reinforcement works being undertaken by the licensee:

- ~~1. which are relevant to the conditions set out in Table 1 of paragraph 13, and~~
- ~~2. for which the licensee will have, prior to 1 April of relevant year t, committed to spend not less than 25 per cent of the capital expenditure that it estimates, using reasonable endeavours, will be incurred in completing these works;~~

~~DFlag<sub>e,t</sub>~~ shall take the value 1 if deep reinforcement project e was completed and commissioned in the relevant year t, and otherwise it shall take the value 0;

~~DRD<sub>e</sub>~~ shall take the corresponding value (expressed in 2004/05 prices) in Table 1 of paragraph 13 in respect of each specified area e; and

~~RDHCP<sub>h,t</sub> means the capital expenditure incurred by the licensee during relevant year t in respect of high cost project h, as defined in paragraph 10.~~

~~13. Table 1~~

<del>e</del>	<del>Conditions—relevant generation capacity and relevant embedded generation capacity in areas (as identified in Annex A to this condition)</del>	<del>Thresholds (MW)</del>	<del>DRD<sub>e</sub> (£m, 2004/05 prices)</del>
<del>1</del>	<del>North of North West boundary</del>	<del>1850</del>	<del>52</del>
<del>2</del>	<del>North of North of Beaulieu boundary</del>	<del>300</del>	<del>47</del>
<del>3</del>	<del>South of Port Ann within the South West zone</del>	<del>85</del>	<del>89</del>
<del>4</del>	<del>North of Inverary within the South West zone</del>	<del>105</del>	<del>52</del>

~~The Authority may direct changes to Table 1 where the licensee provides a report to the Authority setting out how material changes in flows on the licensee's network or other relevant factors have resulted in changes in the costs of deeper reinforcement on its network and an up to date estimate of the efficient costs of relevant works. The Authority will consult with interested parties prior to issuing a direction.~~

~~14. RDCLCPx<sub>t</sub> shall be calculated in accordance with the following formula:~~

$$\del RDCLCPx_t = \sum_i \sum_{s=T-z}^{s=T-1} \left[ \left( \frac{1}{PIT_s} \right) \times \left( RDALCPx_{i,s} \times \left( 1 + RDRet \right)^{-(t-s)0.5} \right) \right]$$

~~where~~

~~i refers to each set of local infrastructure works which is a local RD qualifying project for year t;~~

~~s refers successively to each relevant year from that commencing 1 April 2005 to that preceding relevant year t;~~

~~RDALCPx<sub>i,s</sub> means the capital expenditure incurred by the licensee during relevant year s on project i;~~

~~T~~ shall take a value equal to the calendar year in which relevant year t ends, e.g. for relevant year commencing 1 April 2007 the value of T shall be 2008;

~~T z~~ refers to the relevant year commencing 1 April 2005;

~~S~~ shall take a value equal to the calendar year in which relevant year s starts e.g. for relevant year 2007/08 the value of S shall be 2007; and

~~PIT<sub>s</sub>~~ shall take the value of PIT<sub>t</sub> for relevant year t=s, where PIT<sub>t</sub> shall take the same meaning as given in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services).

15. ~~RDCDC<sub>p</sub>x<sub>t</sub>~~ shall be calculated in accordance with the following formula:

$$\del RDCDC_{p}x_{t} = \sum_{c} \sum_{x=T-p}^{x=T-1} \left[ \left( \frac{1}{PIT_{x}} \right) \times \left( RADC_{p}x_{c,x} \times \left( + RD Ret \right)^{-s} \right)^{0.5} \right]$$

where

~~c~~ refers to each set of deep reinforcement works which is a deep RD qualifying project for year t;

~~x~~ refers successively to each relevant year from that commencing 1 April 2007 to relevant year t;

~~T p~~ refers to the relevant year commencing 1 April 2007;

~~T~~ shall take a value equal to the calendar year in which relevant year t ends, e.g. for relevant year commencing 1 April 2007 the value of T shall be 2008;

~~S~~ shall take a value equal to the calendar year in which relevant year x

starts e.g. for relevant year 2007/08 the value of S shall be 2007;

~~RDADC<sub>px</sub> means the annual capital expenditure incurred by the licensee in relevant year x on project c.~~

### Part 3 – Calculation of charge restriction adjustments arising from the innovation funding incentive scheme

~~16.10.~~ The purpose of this condition is to provide for adjustments to allowed transmission owner revenue to reflect performance of the licensee in relation to its investment in innovation under the Innovation Funding Incentive (IFI) scheme.

~~17.11.~~ For the purposes of paragraph 1, IFI<sub>t</sub> is derived for the relevant year t from the formula:

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

where:

IFIE<sub>t</sub> means the eligible IFI expenditure for the relevant year t as reported in the IFI annual report for that year.

PR<sub>t</sub> means the base transmission revenue in year t as determined in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services);

TIRG<sub>t</sub> means the annual revenue allowance in year t as determined in special condition J3 (Restriction of transmission charges: Transmission Investment for Renewable Generation);

ptr<sub>t</sub> is the pass-through factor applicable for the relevant year t and shall in the relevant year commencing 1 April 2007~~12~~ and each subsequent relevant year take the value 0.8; and

KIFI<sub>t</sub> is the carry forward in relation to the IFI scheme as set out in the IFI annual report for relevant year t-1, and is calculated from the following formula:

$$\text{If } IFIE_{t-1} \leq 0.5 \times \max \left( \text{€}500,000, 0.005 \times \left( PR_{t-1} + TIRG_{t-1} \right) \right):$$

$$KIFI_t = 0.5 \times \max\{\text{€}500,000, 0.005 \times (\text{€}R_{t-1} + TIRG_{t-1})\}$$

If  $IFIE_{t-1} > 0.5 \times \max\{\text{€}500,000, 0.005 \times (\text{€}R_{t-1} + TIRG_{t-1})\}$  and

$$IFIE_{t-1} \leq \max\{\text{€}500,000, 0.005 \times (\text{€}R_{t-1} + TIRG_{t-1})\}:$$

$$KIFI_t = \max\{\text{€}500,000, 0.005 \times (\text{€}R_{t-1} + TIRG_{t-1})\} - IFIE_{t-1}$$

If  $IFIE_{t-1} > \max\{\text{€}500,000, 0.005 \times (\text{€}R_{t-1} + TIRG_{t-1})\}$ :

$$KIFI_t = 0$$

where, for the year commencing 1 April 2007,  $KIFI_t$ , shall be zero

~~18.12.~~ 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; and
“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.

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 IFI scheme.

#### Part 4 - adjustment to restriction of transmission charges due to SF<sub>6</sub> incentive

~~19.13.~~ 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 (SF<sub>6</sub>) incentive scheme.

~~20.14.~~ The licensee shall within 3 months of receiving a notice from the Authority submit to the Authority a leakage rate of SF<sub>6</sub> methodology statement consistent with best industry practice, setting out the methodology by which the licensee will determine the leakage rate of SF<sub>6</sub> gas,



required for the calculation of the actual leakage rate of SF<sub>6</sub> gas, ALK<sub>t</sub>, and the target leakage rate of SF<sub>6</sub> gas, TLK<sub>t</sub>.

~~21~~.15. 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 20, the licensee shall take all reasonable steps to apply the methodology set out in that statement.

~~22~~.16. Before revising the methodology referred to in paragraph 20 the licensee shall submit to the Authority a copy of the proposed revisions to the methodology.

~~23~~.17. Unless the Authority directs otherwise within 1 month of the Authority receiving any proposed revisions to the methodology under paragraph 22, the licensee shall take all reasonable steps to apply the methodology revised in accordance with such proposed revisions.

~~24~~.18. The provisions of paragraphs 26 to 31 of this special licence condition shall not take effect until such time as directed by the Authority.

~~25~~.19. For the purposes of paragraph 1 of this special condition, SFI<sub>t</sub> shall take the value zero until such time as the Authority directs that the provisions of paragraphs 26 to 31 shall take effect.

~~26~~.20. For the purposes of paragraph 1, where ALK<sub>t</sub> < TLK<sub>t</sub>, SFI<sub>t</sub> shall be calculated in accordance with the following formula:

$$SFI_t = 0.002 \times PR_t$$

otherwise: SFI<sub>t</sub> shall take the value zero (0).

Where:

PR<sub>t</sub> means the licensee's base transmission revenue, as defined in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services)

ALK<sub>t</sub> means the actual leakage rate of SF<sub>6</sub> gas in relevant year t as a percentage of inventory of SF<sub>6</sub> 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)

TLK<sub>t</sub> means the target leakage rate of SF<sub>6</sub> gas in relevant year t as a percentage of inventory of SF<sub>6</sub> and shall take the values in the table below:

Relevant year t	2007/08	2008/09	2009/10	2010/11	2011/12
TLK <sub>t</sub>	[]	[]	[]	[]	[]

~~27.21.~~ 21. Where:

- (a) the licensee considers that any event on the licensee's transmission system that causes leakage of SF<sub>6</sub> 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 actual leakage of SF<sub>6</sub> gas and the value of ALK<sub>t</sub> in relevant year t shall be adjusted as specified in that direction. In directing the value of any adjustment to ALK<sub>t</sub> 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<sub>t</sub> in relevant year t.

~~28.22.~~ 22. For the purpose of paragraph 27, any 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 from resulting in the leakage of SF<sub>6</sub> and to mitigate its effect (both in anticipation and subsequently).

~~29.~~23. A direction under paragraph 27 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.

~~30.~~24. For the purpose of paragraph 27, an “exceptional event” means an event or circumstance that is beyond the reasonable control of the licensee and which results in or causes the leakage of SF<sub>6</sub> 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.

~~31.~~25. Without prejudice to paragraph 30, 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 SF<sub>6</sub> gas at a particular site.

~~**Part 5—Adjustment to the Restriction of Transmission Charges in respect of the Capital and Operating Expenditure Incentive Mechanisms**~~

~~32.~~ For the purposes of paragraph 1, RCI<sub>t</sub> is derived for the relevant year t from the formula:

~~$$RCI_t = ARCI_t \times PIT_t$$~~

~~where:~~

~~ARCI<sub>t</sub> means the allowance, in 2004/05 prices, made by the Authority in respect of rolling incentive revenues and shall take the value given in the table below:~~

<del>Relevant year t commencing on 1 April</del>	<del>2007</del>	<del>2008</del>	<del>2009</del>	<del>2010</del>	<del>2011</del>
<del>ARCI<sub>t</sub></del>	<del>£0.4 million</del>	<del>£0.2million</del>	<del>-£0.1 million</del>	<del>Nil</del>	<del>Nil</del>

~~PIT<sub>t</sub> shall take the same meaning as given in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services):~~

#### ~~Part 6 – Adjustment to restriction of transmission charges due to approved operating expenditure~~

~~33. The purpose of this part of this condition is to provide for an adjustment to the maximum revenue to reflect approved operating expenditure.~~

~~34. For the purpose of paragraph 1, RevApOx<sub>t</sub> shall be calculated in accordance with the following formula:~~

$$~~RevApOx_t = ApPreCon_t~~$$

~~Where:~~

~~ApPreCon<sub>t</sub> means the pre construction transmission reinforcement expenditure for relevant year t as described in paragraph~~

~~35. For the purpose of paragraph 34, ApPreCon<sub>t</sub> shall have the value of zero unless directed otherwise by the Authority in writing.~~





## **Special Condition J7: Capital Expenditure Incentive and Safety Net**

4. 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  $-\text{£}1.56m * RPIF_t$

Where:

$RPIF_t$  shall have the same meaning as given in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services).

2. A further revenue adjustment will be made on 1 April 2014 in line with the policy presented in the Appendix 2 of the TPCR4 Rollover Final proposals document of November 2011 (Reference Number: 162/11).

### **Part 1: Capital Expenditure Incentive Revenue Adjustment**

~~2. For the purposes of paragraph 3 of Special Condition J2 (Restriction of Transmission charges: revenue from transmission owner services)  $CxIncRA_t$  shall in each relevant year t take the value of zero, except for the relevant year commencing 1 April 2012 in which  $CxIncRA_t$  shall be calculated in accordance with the following formula:~~

$$CxIncRA_t = \frac{\sum_n [CIR_n \times PVF_n \times LVN_n] PIT_t}{\sum_n [CIR_n - 0.25] \times PVF_n \times [ncDif_n - LVN_n - RDAdd_n] PIT_t}$$

~~where:~~

~~n means the relevant year n such that the first relevant year n shall be the year commencing on 1 April 2007 and accordingly the fifth relevant year n is the year commencing on 1 April 2011;~~

~~CIR<sub>n</sub> means the capital expenditure incentive sharing factor, in respect of the proportion of under or overspend against the capital expenditure allowance for the relevant year n that is borne by the licensee within this price control and shall take the value set out in the table below:~~

<del>Relevant year commencing 1 April:</del>	<del>2007</del>	<del>2008</del>	<del>2009</del>	<del>2010</del>	<del>2011</del>
<del>CIR<sub>n</sub></del>	<del>0.3188</del>	<del>0.2551</del>	<del>0.1863</del>	<del>0.1118</del>	<del>0.0313</del>



~~PVF<sub>n</sub> means the present value adjustment factor in respect of the relevant year n and shall take the value set out in the table below:~~

<del>Relevant year commencing 1 April:</del>	<del>2007</del>	<del>2008</del>	<del>2009</del>	<del>2010</del>	<del>2011</del>
<del>PVF<sub>n</sub></del>	<del>1.35408</del>	<del>1.27443</del>	<del>1.19946</del>	<del>1.12891</del>	<del>1.06250</del>

~~LVN<sub>n</sub> means the change in the capital expenditure allowance for relevant year n as a consequence of actual volumes of generation on 31 March 2012 being different from the deemed baseline value of 1489 MW, and shall be calculated in accordance with paragraph 6 of this condition;~~

~~IncDif<sub>n</sub> represents the difference, expressed in 2004/05 prices, between the adjusted efficient capital expenditure and the base capital expenditure allowance in respect of the relevant year n and shall be calculated in accordance with the following formula:~~

$$~~IncDif_n = \left( \frac{ACx_n}{PIT_n} \right) BCx_n~~$$

~~where:~~

~~ACx<sub>n</sub> is the adjusted efficient capital expenditure incurred by the licensees in respect of the relevant year n and shall be calculated in accordance with paragraph 3 of this condition;~~

~~PIT<sub>n</sub> shall take the value of PIT<sub>t</sub> for relevant year t=n, where PIT<sub>t</sub> shall take the same meaning as given in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services);~~

~~BC<sub>x<sub>n</sub></sub>~~ means, subject to Part 2 (Capital Expenditure Safety Net) of this condition, the base capital expenditure allowance, expressed in 2004/05 prices, in respect of the relevant year n and shall take the value set out in the table below:

Relevant year commencing 1 April:	2007	2008	2009	2010	2011
BC <sub>x<sub>n</sub></sub>	£40,600,000	£31,900,000	£29,000,000	£33,000,000	27,400,000

~~RDAdd<sub>n</sub> shall take the value of RDAdd<sub>t</sub> for relevant year t=n, where RDAdd<sub>t</sub> shall take the same meaning as given in paragraph 11 of special condition J5 (Restriction of transmission charges: Total incentive revenue adjustment); and~~

~~PIT<sub>t</sub> shall take the same meaning as given in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services).~~

3. For the purposes of paragraph 2, ~~AC<sub>x<sub>n</sub></sub>~~ shall be calculated in accordance with the following formula:

$$\del{ACx_n = Cx_n - ESCx_n - LCx_n - TP_n - DCx_n}$$

~~where:~~

~~C<sub>x<sub>n</sub></sub>~~ means the capital expenditure, expressed net of pensions contributions incurred by the licensee in the relevant year n, as reported to the Authority pursuant to standard condition B15 (Price Control Review Information). Such expenditure shall not include capital expenditure incurred by the licensee in the relevant year n in respect of the transmission investment projects identified in Schedule C to special condition J3 (Restriction of transmission charges: Transmission Investment for Renewable Generation);

~~ESC<sub>x<sub>n</sub></sub>~~ means that amount of load related capital expenditure incurred by the licensee in the provision of excluded services as set out in Schedule A in the relevant year n less any contributions to the capital cost of that expenditure made by or on behalf of the persons to whom such excluded services are provided and as reported to the Authority pursuant to standard condition B15 (Price Control Review Information);

~~LC<sub>x<sub>n</sub></sub>~~ means that amount of capital expenditure incurred by the licensee in the relevant year n that falls to be treated as logged up capital expenditure as specified in paragraph 7 to this condition and as reported to the Authority pursuant to standard condition B15 (Price Control Review Information);

~~TP<sub>n</sub>~~ means the capital expenditure efficiently incurred in formula year n for the purpose of facilitating a connection of a new user where the prospective new user terminates its relevant bilateral agreement prior to commencing use of the GB transmission system and as reported to the Authority pursuant to standard condition B15 (Price Control Review Information);

~~DC<sub>x<sub>n</sub></sub>~~ means that amount of capital expenditure incurred by the licensee in respect of the relevant year n in respect of which the Authority has issued a direction on or before 31 March 2012 in respect of the relevant years from 1 April 2007 to 31 March 2011, and on or before 31 March 2017 in respect of the relevant year commencing 1 April 2011, that such expenditure is deemed inefficient in accordance with paragraphs 4 and 5 of this condition. It shall take the value zero unless the Authority directs otherwise.

~~4. For the purposes of paragraph 3, before issuing a direction that certain capital expenditure be deemed inefficient, the Authority shall issue a notice to the licensee, specifying:~~

~~(a) the amount of capital expenditure that the Authority proposes to deem to be inefficient;~~

~~(b) the reasons why the Authority considers that the capital expenditure referred to in sub-paragraph (a) is inefficient;~~

~~(c) the date, being of not less than 28 days from the date of the notice, by which the licensee may make representations to the Authority in respect of the notice; and~~

~~(d) the date by which the Authority intends to make a direction.~~

~~5. The Authority shall have regard to any representations made by the licensee in response to the notice referred to in paragraph 4 before making any direction in respect of paragraph 3.~~

~~6. For the purposes of paragraph 2,  $LVN_n$  shall be calculated in accordance with the following formula:~~

$$~~LVN_n = \left\{ UCA_1 \times \frac{\min \left[ \left( GC_z - 1489 \right), 0 \right]}{5} \right\} + LVWIP_n~~$$

~~where:~~

~~$UCA_1$  shall take a value of £24,000 (in 2004/05 prices);~~

~~$GC_z$  means the total amount of relevant generation on 31 March 2012;~~

~~$LVWIP_n$  means the adjustment in the capital expenditure allowance in respect of relevant year n relative to the base capital expenditure allowance ( $BCx_n$ ) in respect of works carried out by the licensee which would otherwise be included within  $RDAdd_n$  or in relation to providing generation connection capacity  $GC_z$  had the relevant additional volume been provided (“work in progress”). Where applicable, the Authority shall direct by 31 March 2012 an appropriate positive value for this adjustment. Before such direction is made, this adjustment shall take the value zero; and~~

~~“relevant~~

~~generation~~

~~capacity” shall have the same meaning as given in Part 2 of special condition J5 (Restriction of transmission charges: Total incentive revenue adjustment).~~

~~7. For the purposes of paragraph 3,  $LCx_n$  shall comprise those costs incurred, and reported to the Authority in accordance with standard condition B15 (Price~~

~~control review information), by the licensee against the following cost categories:~~

~~(a) Net additional local infrastructure as a result of the licensee constructing a 'firm' (i.e. SQSS compliant) connection as opposed to a 'non-firm' single circuit connection for new generation connections in circumstances where the relevant generator is requesting a connection capacity of less than 100 megawatts;~~

~~(b) Upgrading of operational telecommunication systems resulting from the introduction of BT's 21<sup>st</sup> Century Networks programme;~~

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

~~8. For the purposes of this condition, the licensee shall, not later than 31 July in the relevant year commencing 1 April 2008 and each subsequent relevant year t, submit a report to the Authority (in a form approved by the Authority) giving the outturn values of all of the variables stipulated in this condition in respect of the relevant year t-1.~~

## **Part 2: Capital Expenditure Safety Net**

3. For the purposes of this condition, relevant capital expenditure (RelCx<sub>t</sub>) in respect of the relevant year t shall be calculated as follows:

$$\underline{\text{RelCx}_t} = \frac{Cx_t - ESCx_t}{RPIF_t}$$

where:

Cx<sub>t</sub> means the capital expenditure, expressed net of pensions contributions incurred by the licensee in the relevant year t, as reported to the Authority pursuant to standard condition B15 (Price Control Review Information). Such expenditure shall not include capital expenditure incurred by the licensee in the relevant year n in respect of the transmission investment projects identified in Schedule C to special condition J3 (Restriction of transmission charges: Transmission Investment for Renewable Generation);

ESC<sub>t</sub> means that amount of load related capital expenditure incurred by the licensee in the provision of excluded services as set out in Schedule A in the relevant year t less any contributions to the capital cost of that expenditure made by or on behalf of the persons to whom such excluded services are provided and as reported to the Authority pursuant to standard condition B15 (Price Control Review Information); and

RPIF<sub>t</sub> shall take the same meaning as given in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services).

4. For the purposes of paragraph 5, the relevant capital expenditure allowance (RelAC<sub>t</sub>) in the relevant year t shall be calculated in accordance with the following formula:

$$\underline{\text{RelAC}_t = \text{BCx}_t}$$

Where

BC<sub>t</sub> means the capital expenditure allowance which shall take the value **£51.5m** expressed in 2009/10 prices.

5. If, in respect of the relevant year commencing 1 April 2012, the licensee reasonably expects that relevant capital expenditure RelC<sub>t</sub> will be less than  $0.8 \times \text{RelAC}_t$ , then the licensee shall furnish to the Authority a statement setting out:

(a) the amount by which the licensee expects relevant capital expenditure to fall below RelAC<sub>t</sub> in respect of that same relevant year;

(b) the factors which, in the licensee's reasonable opinion, have or are likely to result in the shortfall referred to in sub-paragraph (a).

6. The Authority may request any additional information in relation to paragraphs 3 to 5 of this condition that it considers is reasonably necessary to exercises 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.
- ~~9.7.~~ Where the Authority issues a request pursuant to paragraph 6, 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 base transmission revenue set out in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services). Such notice shall specify:
- (a) the amount by which the Authority proposes to ~~reduce~~ base transmission revenue as a result of relevant capital expenditure  $RelC_{x_t}$  being less than  $0.8 \times \text{RdAC}_{x_t}$ ;
  - (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;
  - (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 11A ~~(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 8 before formally ~~formally proposing~~ making the modification to the value of base transmission revenue in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services) referred to in the notice pursuant to section 11A ~~(or as the case may be, section 12)~~ of the Act.

10. The proposals provided to the licensee pursuant to paragraph 9 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.

**Part 2: Capital Expenditure Safety Net**

~~10. For the purposes of this condition, relevant capital expenditure (RelCx<sub>t</sub>) in respect of the relevant year t shall be calculated as follows:~~

~~$$RelCx_t = \frac{Cx_t - ESCx_t - LCx_t}{PIT_t} - RDAdd_t$$~~

~~where:~~

~~Cx<sub>t</sub> shall take the value of Cx<sub>n</sub> for relevant year n=t, where Cx<sub>n</sub> shall take the same meaning as given in paragraph 3 of this condition;~~

~~ESCx<sub>t</sub> shall take the value of ESCx<sub>n</sub> for relevant year n=t, where ESCx<sub>n</sub> shall take the same meaning as given in paragraph 3 of this condition;~~

~~LCx<sub>t</sub> shall take the value of LCx<sub>n</sub> for relevant year n=t, where LCx<sub>n</sub> shall take the same meaning as given in paragraph 3 of this condition;~~

~~PIT<sub>t</sub> shall take the same meaning as given in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services); and~~

~~RDAdd<sub>t</sub> shall take the same meaning as given in paragraph 11 of special condition J5 (Restriction of transmission charges: Total incentive revenue adjustment).~~

~~:~~

~~11. For the purposes of paragraph 13, the relevant capital expenditure allowance (RelAC<sub>t</sub>) in the relevant year t shall be calculated in accordance with the following formula:~~

~~$$RelAC_t = BCx_t$$~~



where

~~BC<sub>x<sub>t</sub></sub>~~ shall take the value of BC<sub>x<sub>n</sub> for relevant year n=t, where BC<sub>x<sub>n</sub> shall take the same meaning as given in paragraph 3 of this condition.</sub></sub>

~~12. If, in respect of the relevant year t or any subsequent relevant year up to and including the relevant year commencing 1 April 2011, the licensee reasonably expects that relevant capital expenditure RelC<sub>x<sub>t</sub></sub>~~ will be less than  $0.8 \times \text{RelAC}_{x_t}$  then the licensee shall furnish to the Authority a statement setting out:

~~(a) the amount by which the licensee expects relevant capital expenditure to fall below RelAC<sub>x<sub>t</sub></sub>~~ in respect of that same relevant year;

~~(b) the factors which, in the licensee's reasonable opinion, have or are likely to result in the shortfall referred to in sub-paragraph (a).~~

~~13. The Authority may request any additional information in relation to paragraphs 9 to 11 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.~~

~~14. Where the Authority issues a request pursuant to paragraph 12, 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~~

~~15. 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 base transmission revenue set out in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services). Such notice shall specify:~~

~~(a) the amount by which the Authority proposes to reduce base transmission revenue as a result of relevant capital expenditure RelC<sub>x<sub>t</sub></sub>~~ being less than  $0.8 \times \text{RelAC}_{x_t}$ ;

- ~~(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;~~
- ~~(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.~~

~~16. The Authority shall have regard to any representations made by the licensee in response to the notice referred to in paragraph 14 before formally proposing the modification to the value of base transmission revenue in paragraph 3 of special condition J2 (Restriction of transmission charges: revenue from transmission owner services) referred to in the notice pursuant to section 11 (or as the case may be, section 12) of the Act.~~

~~17. The proposals provided to the licensee pursuant to paragraph 15 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.~~

**SCHEDULE C: SUPPLEMENTARY PROVISIONS TO SPECIAL CONDITION  
J3 (Restriction of transmission charges: Transmission Investment for Renewable  
Generation)**

**Beaully-Denny**

Pre construction, contingency and construction costs

<u>project costs</u> <u>(£ 000)</u> <u>2009/10 prices</u>	<u>t=p</u>	<u>t=0</u>	<u>t=1</u>	<u>t=2</u>	<u>t=n</u>
<u>Forecast pre-construction and contingency costs</u> <u>(<math>CFTIRG_t^i</math>)</u>	<u>5,921</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>
<u>Forecast Construction Costs</u>		<u>56,354</u>	<u>112,252</u>	<u>97,476</u>	<u>11,468</u>
<u>Average asset value during construction period</u> <u>(<math>FTIRGC_t^i</math>)</u>	<u>n/a</u>	<u>28,177</u>	<u>111,068</u>	<u>213,800</u>	<u>257,223</u>
<u>Depreciation during Construction (<math>FTIRGDepn_t^i</math>)</u>			<u>2,818</u>	<u>8,612</u>	<u>13,486</u>

Post construction revenue

<u>Project costs</u> <u>(£ 000)</u> <u>2009/10 prices</u>	<u>t=n+1</u>	<u>t=n+2</u>	<u>t=n+3</u>	<u>t=n+4</u>	<u>t=n+5</u>
<u>Opening RAV</u> <u>(<math>ETIRGORAV^i</math>)</u>	<u>256,214</u>				
<u>Dep<sub>t</sub><sup>i</sup></u>	<u>12,811</u>	<u>12,811</u>	<u>12,811</u>	<u>12,811</u>	<u>12,811</u>
<u>Average asset value during efficiency period</u> <u>(<math>ETIRGC_t^i</math>)</u>	<u>249,809</u>	<u>236,999</u>	<u>224,188</u>	<u>211,377</u>	<u>198,566</u>

## Sloy

### Pre construction, contingency and construction costs

<u>project costs</u> <u>(£ 000)</u> <u>2009/10 prices</u>	<u>t=p</u>	<u>t=0</u>	<u>t=n</u>
<u>Forecast pre-construction and contingency costs</u> <u>(<math>CFTIRG_t^i</math>)</u>	<u>155</u>	<u>n/a</u>	<u>n/a</u>
<u>Forecast Construction Costs</u>		<u>3,436</u>	<u>4,773</u>
<u>Average asset value during construction period</u> <u>(<math>FTIRGC_t^i</math>)</u>	<u>n/a</u>	<u>1,718</u>	<u>5,877</u>
<u>Depreciation during Construction</u> <u>(<math>FTIRGDepn_t^i</math>)</u>			<u>179</u>

### Post construction revenue

<u>Project costs</u> <u>(£ 000)</u> <u>2009/10 prices</u>	<u>t=n+1</u>	<u>t=n+2</u>	<u>t=n+3</u>	<u>t=n+4</u>	<u>t=n+5</u>
<u>Opening RAV</u> <u>(<math>ETIRGORAV_t^i</math>)</u>	<u>7,690</u>				
<u>Dep<sub>t</sub><sup>i</sup></u>	<u>385</u>	<u>385</u>	<u>393</u>	<u>393</u>	<u>393</u>
<u>Average asset value during efficiency period</u> <u>(<math>ETIRGC_t^i</math>)</u>	<u>7,498</u>	<u>7,112</u>	<u>6,874</u>	<u>6,480</u>	<u>6,088</u>

## **Beaully-Denny**

### **Pre construction, contingency and construction costs**

<b><u>project costs</u></b> <b><u>(£ 000)</u></b>	<b><u>t=p</u></b>	<b><u>t=0</u></b>	<b><u>t=1</u></b>	<b><u>t=2</u></b>	<b><u>t=n</u></b>
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<b>2004 prices</b>					
Forecast—pre-construction and contingency costs ( $CFIRG_t^i$ )	5,142	n/a	n/a	n/a	n/a
Forecast—Construction Costs		50,200	100,000	85,000	10,000
Average asset value during construction period ( $FTIRGC_t^i$ )	n/a	25,100	98,945	186,435	224,300
Depreciation—during Construction ( $FTIRGDep_t^i$ )			2,510	7,510	11,760

Post construction revenue

<b>Project costs (£ 000) 2004 prices</b>	<b>t=n+1</b>	<b>t=n+2</b>	<b>t=n+3</b>	<b>t=n+4</b>	<b>t=n+5</b>
Opening RAV ( $ETIRGORAV_t^i$ )	223,420				
$Dep_t^i$	11,171	11,171	11,171	11,171	11,171
Average—asset—value during efficiency period ( $ETIRGC_t^i$ )	217,835	206,664	195,493	184,322	173,151

## Sloy

### Pre-construction, contingency and construction costs

<b>project costs (£ 000) 2004 prices</b>	<b>t=p</b>	<b>t=0</b>	<b>t=n</b>
Forecast pre-construction and contingency costs ( $CFIRG_t^i$ )	100	n/a	n/a
Forecast Construction Costs		3,000	4,000
Average asset value during construction period ( $FTIRGC_t^i$ )	n/a	1,500	4,925
Depreciation during Construction ( $FTIRGDepn_t^i$ )			150

### Post-construction revenue

<b>Project costs (£ 000) 2004 prices</b>	<b>t=n+1</b>	<b>t=n+2</b>	<b>t=n+3</b>	<b>t=n+4</b>	<b>t=n+5</b>
Opening RAV ( $ETIRGORAV^i$ )	6,850				
$Dep_t^i$	343	343	343	343	343
Average asset value during efficiency period ( $ETIRGC_t^i$ )	6,679	6,336	5,994	5,651	5,309



## Output measures

### Beauly-Denny

Project scope		Capability as at 31 March 2005		Forecast capability prior to construction start date		Forecast capability post construction	
		Post fault continuous at 50c rated Temp MVA (Amps)	Pre fault continuous at 50c rated temp MVA (Amps)	Post fault continuous at 50c rated Temp MVA (Amps)	Pre fault continuous at 50c rated tem MVA (Amps)p	Post fault continuous at 90c rated Temp MVA (Amps)	Pre fault continuous at 90c rated temp MVA (Amps)
<b>EF1 - 132Kv</b>	Winter	132 (580)	111 (488)	132 (580)	111 (488)	-	-
	Summer	106 (465)	89 (392)	106 (465)	89 (392)	-	-
<b>EF2 - 132 kV</b>	Winter			132 (580)	111 (488)	-	-
	Summer			106 (465)	89(392)	-	-
<b>400 kV</b>	Winter	-	-	-	-	2810 (4050)	2360 (3400)
	Summer	-	-	-	-	2510 (3620)	2110 (3040)
<b>275kV</b>	Winter	-	-	-	-	1930 (4050)	1620 (3400)
	Summer	-	-	-	-	1730 (3620)	1450 (3040)



**Sloy**

<b>Project scope</b>	Capability as estimated at 31 March 2005 MVA	Forecast capability prior to construction start date as estimated at 31 March 2005 MVA	Forecast capability post construction as estimated MVA
South West reinforcement	220	220	380